

# Office of the State Auditor

## Semi-Annual Report

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January - June 1993

NOV 9 1993



Commonwealth of Massachusetts

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A. Joseph DeNucci, Auditor

Issue 13

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# The Commonwealth of Massachusetts

AUDITOR OF THE COMMONWEALTH

STATE HOUSE, BOSTON 02133

A. JOSEPH DE NUCCI  
AUDITOR

TEL (617) 727-2075

October, 1993

His Excellency William F. Weld, Governor  
His Honor A. Paul Cellucci, Lieutenant Governor  
Honorable William M. Bulger, President of the Senate  
Honorable Charles F. Flaherty, Speaker of the House of Representatives  
Honorable Thomas F. Birmingham, Chairman of the Senate Ways and Means Committee  
Honorable Thomas M. Finneran, Chairman of the House Ways and Means Committee  
Honorable Members of the General Court:

I am pleased to submit herewith the Semi-Annual Report of Audit Results and Activities of the Office of the State Auditor covering the period January 1, 1993 through June 30, 1993.

This thirteenth report continues a format which organizes audit results by recurring findings within sectors of government to highlight systemic problems as well as broad areas in need of strengthening. The OSA also acknowledges, within each section, actions taken by agencies in response to previous OSA audit results and recommendations. Also included are legislative studies, mandate determinations, and fiscal reviews completed by the OSA's Division of Local Mandates. Finally, proposed and ongoing initiatives are included to inform officials and the public of significant audit activity.

In keeping with the current emphasis on privatization issues, my office has continued to commit valuable resources to vendor oversight. Seven vendor audits are detailed in the Human Services Audit section of this report, beginning on page 30. In addition, the OSA has initiated two statewide vendor audits, one focusing on the process for awarding state contracts to human services vendors and the other reviewing indirect costs such as administrative and support charges.

I look forward to continuing to work on privatization issues with members of the Legislature and the Administration as well as on many other matters relative to the quality and cost effectiveness of the services that the Commonwealth provides to its citizens.

Sincerely,

A handwritten signature in dark ink, reading "A. Joseph DeNucci".

A. Joseph DeNucci  
Auditor of the Commonwealth



# The Constitution of the United States

Article I, Section 1

All legislative Powers herein granted shall be vested in a Congress of the United States, which shall consist of a Senate and House of Representatives.

Section 1

Representatives and direct Taxes shall be apportioned among the several States which may be admitted into or which shall exist at the time of the first meeting of the House of Representatives, according to the following Principles, to-wit: For every Representative shall be apportioned to that State one Representative for every thirty thousand Persons; but no State shall have less Representatives than the least State shall have.

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*[Handwritten signature]*  
John Jay



# Contents

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Office of the State Auditor  
A. Joseph DeNucci, Auditor

Semi-Annual Report  
January - June 1993

Authority and Responsibilities	2
Audit Results, Recommendations, Initiatives, and Corrective Actions: Overview	4
Authority Audits	6
Audit Results	7
Prior Audit Results: Corrective Actions	18
Initiatives	20
Education Audits	22
Audit Results	23
Prior Audit Results: Corrective Actions	28
Initiatives	29
Human Services Audits	30
Audit Results	31
Prior Audit Results: Corrective Actions	36
Initiatives	37
Judiciary/Law Enforcement Audits	38
Audit Results	39
Initiatives	42
Other Audit Reports	44
Audit Results	45
Prior Audit Results: Corrective Actions	47
Initiatives	48
Electronic Data Processing Audits	50
Audit Results	51
Prior Audit Results: Corrective Actions	63
Enforcement Assurance: Referrals & Requests	64
Referrals	65
Requests	67
Division of Local Mandates	70
Legislative Agenda	78
Private Occupational Schools: Financial Evaluations	84
Appendix I      Audit Reports Issued	87
Appendix II     Division of Local Mandates: Determinations and Cost Studies	93

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# Office of the State Auditor: Authority and Responsibilities

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**T**he Office of the State Auditor (OSA) operates under the direction and control of the State Auditor, an independently elected constitutional officer. The OSA provides the Governor, the Legislature, auditees, oversight agencies, and the general public with an independent evaluation of the various agencies, activities, and programs operated by the Commonwealth. The State Auditor is mandated, under Chapter 11, Section 12, of the Massachusetts General Laws, to conduct an audit at least once every two years of all departments, offices, commissions, health and higher education institutions, and activities of the Commonwealth, including its court system and Authorities. Not including special audit projects, the number of entities requiring audit coverage totals approximately 750. The Auditor also has authority to audit the thousands of vendors that contract with the Commonwealth and its instrumentalities, as well as federally aided programs. In addition, the Auditor is responsible, under Chapter 11, Section 6B, of the Massachusetts General Laws, for the Division of Local Mandates, which is charged primarily with determining the financial impact of legislation on cities and towns.

The OSA conducts financial, performance, and electronic data processing audits in accordance with "Government Auditing

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Standards" issued by the Comptroller General of the United States. These standards are known in the profession both as Generally Accepted Government Auditing Standards (GAGAS) and as the Yellow Book standards.

OSA audit activities include the following objectives:

- Attesting to the fair presentation, accuracy, and reliability of an auditee's financial statements;
- Determining whether the Commonwealth's resources are properly safeguarded;
- Determining whether such resources are properly and prudently used;
- Determining an auditee's compliance with legal and regulatory requirements;
- Evaluating the adequacy of an entity's internal control systems;
- Evaluating management's economy and efficiency in its use of resources;
- Determining and evaluating a program's results, benefits, or accomplishments; and
- Ensuring that all audit results are fully disclosed to the public and the auditees.

All OSA audit results and recommendations are intended to assist agency and program administrators by indicating areas where accounting and administrative controls, financial operations, program results, and efficiency and effectiveness can be improved, and by providing technical assistance where appropriate. An important component of most audits is the exit conference, during which the auditee is given an opportunity to respond to the audit and its recommendations. In short, the OSA is not simply a critic but is an agent, an advocate, and a catalyst for improved management and delivery of government services.



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## Audit Results, Recommendations, Initiatives, and Corrective Actions: Overview

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**D**uring the report period January 1, 1993 through June 30, 1993, the Office of the State Auditor issued 102 audit reports covering: Authorities, human services agencies, education entities, judiciary/law enforcement entities, and various other state activities. For a complete listing of audit reports, see Appendix I on page 87. In these reports the OSA disclosed millions of dollars in financial and operational deficiencies and also provided recommendations intended to safeguard the Commonwealth's assets and to improve the effectiveness and efficiency of governmental operations.

Each type of entity audited by the OSA is governed by particular laws and regulations; is required to maintain financial records properly; and, of course, is expected to operate economically and effectively.

OSA audits are not intended to sensationalize, but rather to present an accurate appraisal of financial management, legal compliance, and, where appropriate, program effectiveness and efficiency.

Audit results and recommendations are important to auditees, and in a majority of instances auditees have indicated a willingness to take appropriate corrective actions. Audit results, viewed in the aggregate, give focus to problem areas for legislators and administration officials and, along with critical individual audit results, are the basis of the OSA legislative and administrative initiatives and recommendations.

The following information clearly demonstrates that OSA audits not only have promoted the safeguarding and enhancement of the Commonwealth's assets but have also assisted auditees in creating solutions to improve their financial and managerial operations.

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## Authority Audits

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During the report period, the OSA released 54 audit reports relative to housing authorities and other independent entities. Forty of these reports were federally mandated audits of state-administered federal and state programs. Many of these reports identified recurring audit results which, if addressed, will improve financial management of these Authorities and, in turn, help to safeguard state and federal funds.

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## Audit Results

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### Independent Authorities

#### Deficiencies in Contract Procurement

Although independent Authorities are not required by law to follow state agency or local government requirements regarding procedures for awarding professional service contracts, it is sound business practice to adopt and implement a competitive bidding process. In addition, adequate contract monitoring and the execution of formal contracts that specify the scope of work to be done minimize supplemental payments and help to control total contract costs.

- The Massachusetts Bay Transit Authority (MBTA) made payments exceeding \$65 million on 78 professional service agreements that did not have a formally executed contract detailing the scope of work to be performed and compensation to be paid. As a result, the MBTA lost enforcement authority regarding both scope and compensation issues. In addition, although work had been completed on six of these agreements, the MBTA was unable to close them out because formally executed contracts were not in place.
- The Massachusetts Bay Transit Authority (MBTA) made numerous supplemental amendments to architect/engineering contracts. Nine architect/engineering contracts, which were originally signed at \$5,121,780, rose to a combined total of \$75,166,019 above the originally contracted amount. The excessive number of supplemental amendments indicated that the scope of work to be performed was not properly defined at the time the contracts were awarded. As a result, the MBTA may not have obtained the best price for the complete project.
- The Massachusetts Turnpike Authority, from 1954 to 1990, contracted exclusively with three firms for its consulting engineering, traffic engineering, and auditing services. The Authority did not obtain competitive bids for these contracts totalling more than \$5 million during 1989 and over \$3 million during 1990. As a result, it cannot be assured that quality professional services were obtained at the lowest possible cost.

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**Inadequate  
Protection Against  
Loss of Funds**

The Federal Deposit Insurance Corporation insures bank deposits up to \$100,000. Any funds in excess of this amount are subject to loss in the event of a bank failure. The following entity risked loss of funds in this manner.

- Lawrence Redevelopment Authority had approximately \$605,000 in grant funds deposited in one banking institution. As a result, the Authority placed at-risk \$505,000, which should have been deposited into separate banking institutions with balances not exceeding \$100,000.

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**Questionable  
Expenditures**

The Massachusetts Bay Transit Authority (MBTA) is spending a total of \$65.2 million of funds borrowed from the Commonwealth and earmarked for public transportation improvement, to construct two parking garages. The OSA found these construction projects to be unnecessary and contrary to the goal of encouraging increased use and enhancement of public transportation.

- The MBTA is constructing a five-level underground parking garage for 1,300 cars at North Station. This project will cost approximately \$46 million to be funded solely through MBTA bonds, the debt service on which will be paid by the Commonwealth. This garage is likely to encourage commuters to drive their cars into the North Station area rather than to use public transportation, a contradiction of the MBTA's mission, which is to provide, promote, and improve public transportation services.
- The MBTA constructed a 1,050 car parking garage in Lynn, which opened to the public in 1992. The garage cost \$22.7 million, funded through MBTA bonds whose debt service obligations will be paid by the Commonwealth. On each of several OSA field visits the parking facility was underutilized, having fewer than 100 vehicles parked in it. Moreover, there was an abundance of available parking spaces in the Lynn Central Square area. As a result, the state will spend approximately \$45 million in debt service payments over thirty years for an unneeded facility. In addition, the garage was not built in a location that would encourage commuters to utilize public transportation and thus undermined the MBTA's primary mission.



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## Housing Authorities and the Federal Single Audit Act

The federal Single Audit Act of 1984 created many opportunities for state governments to reduce duplication by using one audit to satisfy both federal and state requirements. The Commonwealth, for example, closes its books on June 30 each year through a single audit done jointly by the Office of the State Auditor and a private accounting firm.

Procedures developed by the OSA and authorized by Chapter 138 of the Acts of 1991 for the procurement and conduct of housing authority audits provide another example of the way in which the Commonwealth is improving the coordination and efficiency of the audit process. Chapter 138 gives the OSA the authority to prescribe state standards, in addition to any federal requirements, for audits of all housing authorities that receive federal financial assistance, whether conducted by the OSA or a private firm. Housing authorities that choose private firms to conduct audits of their federal programs are required to submit said audits to the OSA for review and approval. As a result of implementation of these single audit procedures, accountability is strengthened, duplication is prevented, and costs are reduced. During the report period, the OSA released 32 single audits of housing authorities and reviewed an additional 25 single audits completed by private certified public accountants.

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### Inadequate Accounting and Administrative Controls

Adequate accounting and administrative controls assist housing authorities in maximizing revenue potential and avoiding unnecessary operating deficits, thereby potentially increasing funds available for its programs. Several reports identified areas where accounting, recordkeeping, and other internal controls needed improvement.

- Barnstable Housing Authority did not reconcile significant accounts receivable differences between amounts listed on financial statements and amounts listed on tenant ledger cards. The financial statements showed the amount owed by tenants as \$3,769, while tenant ledger cards indicated accounts receivable balances of \$18,777. As a result, the Authority's financial statements contained inaccuracies that eventually necessitated adjusting an entry in order to ensure that accurate financial data was submitted to the Executive Office of Communities and Development.



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**Inadequate  
Accounting and  
Administrative  
Controls**

*Continued*

- Boston Housing Authority's budget requests to the Executive Office of Communities and Development (EOCD) were not based on prior fiscal years' actual expenditures or on accurate, documented budget forecasting data. As a result, the Authority received \$2,896,872 in subsidy overpayments from 1981 to 1993. Although \$2,768,068 was eventually returned to EOCD, the Authority's retention of surplus funds deprived the Commonwealth of about \$240,000 in potential interest income.
- Boston Housing Authority's Condominium Purchase Program had weak fiscal and administrative controls. These included poor accounting and recordkeeping practices, a lack of adequate documentation of condominium purchases, and the purchase of condominium units above independently appraised values.
- Boston Housing Authority combined and poorly managed its state-aided and federally funded housing program accounts. This resulted in \$920,320 due federally aided programs from state-funded programs as of March 1990.
- Boston Housing Authority had, as of March 1990, \$481,550 deposited in a single bank account. This is contrary to Executive Office of Communities and Development requirements which limit individual accounts to \$100,000 in order to assure full coverage by the Federal Deposit Insurance Corporation. Funds in excess of this amount are subject to loss in the event of a bank failure.
- Dracut Housing Authority needed to improve fiscal controls in order to assure the accuracy of its books and records and of the financial statements presented to the Executive Office of Communities and Development and to the Department of Housing and Urban Development (HUD). For example, a variance of \$9,106 existed between expenditure reports submitted to HUD and the Authority's general ledger. In addition, the Authority did not maintain separate financial records for new and renewal Section 8 housing assistance certificates. As a result, the financial statements presented to HUD did not reflect the actual payment and expenses applicable to each type of certificate.

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- Gloucester Housing Authority needed to improve fiscal controls in order to ensure the accuracy of its books and records and of the financial statements presented to the Executive Office of Communities and Development and to the Department of Housing and Urban Development. Bank statements were not properly reconciled; tenant accounts receivable data did not agree with general ledger balances; and certain receipts, expenditures, and payroll deductions could not be verified. Because of these deficiencies, the Authority had limited assurance that its monetary resources were properly safeguarded and appropriately expended.
  - Medfield Housing Authority maintained three checking accounts and two investment accounts but did not balance the accounts within each checkbook. An accountant did reconcile the general ledger to the monthly bank statement. However, because the Authority did not maintain current cash and investment balances, its officials did not know the exact amount of funds available before making disbursements.
  - Medway Housing Authority reallocated \$10,222 of costs originally charged to state-aided programs to its federally aided public housing program. Since documentation was not available to support these cost reallocations, there was no assurance that the costs were properly charged to the Authority's federal program.
  - Milford Housing Authority, contrary to instructions from the Executive Office of Communities and Development (EOCD), transferred over \$135,000 from certain accounts and into other state-aided program accounts. As a result, the Authority incurred the risk of having its management rating by EOCD downgraded to a level signifying substantial managerial, fiscal, or programmatic problems and, in the case of one program, had to request an additional state subsidy.
  - Milford Housing Authority needed to strengthen several internal control weaknesses. A number of disbursement checks contained only the signature of the former board chairman, although a co-signature by the Treasurer was required; not all payments were submitted for board approval; and more than half of all expenditures were not properly authorized or supported by documentation. Because of these deficiencies, the Authority had limited assurance that its financial resources were properly safeguarded and appropriately expended.
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**Inadequate  
Accounting and  
Administrative  
Controls**

*Continued*

- Milford Housing Authority overspent its administrative payroll budget by \$8,120 and, due to several posting errors, appeared to exceed budget allocations for maintenance staff. As a result, the Authority risked reducing operating reserves and potentially created the need for federal and state subsidies.
- Wilbraham Housing Authority had a number of deficiencies in its payroll system. These included missing timesheets, instances in which timesheets were not reviewed and approved by Authority officials, mathematical errors in accruing leave time, failure by the Executive Director to maintain a record indicating personal leave time status, and overpayments to employees. Without properly prepared attendance calendars and supporting timesheets, the Authority could not be assured that employees worked the hours for which they were paid or that sick and vacation-time balances were correctly accumulated.
- Wilbraham Housing Authority's general administration procedures had numerous deficiencies. The Authority did not have a complete management plan establishing written guidelines for personnel, budget, finance, and tenant-relation policies and, as a result, lacked the basic framework for controlling its administrative operations. Among weaknesses noted were: misfiled documents, incomplete records, and the inability to locate financial reports and pertinent budgetary data from the two previous fiscal years.
- Wilbraham Housing Authority listed three authorized check signers who were no longer employed by or associated with the Authority. Although these individuals did not sign checks after leaving the Authority, prudent business practice dictates that only current management officials and board members should be listed as authorized signatories.



## Inadequate Control over Property and Equipment

Executive Office of Communities and Development (EOCD) regulations require that housing authorities conduct annual physical inventories of property and equipment, tag equipment, and annually update inventory listings. In addition to ensuring accountability for property and equipment, adequate inventory records serve as a source of insurance coverage information in the event of a casualty loss, as a basis of comparison with the previous year's physical inventory, and as financial planning data. Several reports identified areas where inventory controls needed improvement in order to adequately safeguard property and equipment and to protect these fixed assets from possible loss, theft, or misuse.

- Brookline Housing Authority, while improving its inventory controls, still did not have complete records of original cost or fair market value of its property and equipment.
- East Bridgewater Housing Authority, while making substantial improvements in safeguarding its fixed assets, did not conduct an annual physical inventory of its property and equipment and did not consistently record the original cost or fair market value of individual equipment items.
- Merrimac Housing Authority did not conduct an annual physical inventory, did not maintain furniture and equipment record cards, and did not properly reflect the value of its fixed assets in its general ledgers.
- Milford Housing Authority did not perform an annual physical inventory or update its inventory records to reflect new purchases. Moreover, the Authority incorrectly charged \$35,269 to one of its Rental Assistance Programs for the purchase of two trucks.
- North Reading Housing Authority did not conduct an annual inventory of its property and equipment and did not maintain accurate inventory records.
- Taunton Housing Authority did not maintain adequate records of its fixed assets or tag all equipment items.
- Wilbraham Housing Authority was cited in three prior audits for inadequate controls over its property and equipment. The Authority was still not maintaining required fixed asset records.
- Wilmington Housing Authority did not conduct an annual physical inventory or maintain a current listing of its property and equipment, and did not have a record of the original cost or fair market value of all equipment items.

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**Inadequate  
Control over Rent  
Determinations**

OSA reports disclosed that several housing authorities did not ensure that rent determinations were in accordance with Executive Office of Communities and Development (EOCD) and Department of Housing and Urban Development (HUD) regulations. These conditions could result in overcharges to tenants or lost income to Authorities.

- Medfield Housing Authority's tenant files contained several errors and omissions. For example, because of a lack of awareness of the asset limitation of \$15,000 imposed by EOCD, tenants were not asked to provide information on their assets. Some of these tenants may not have been eligible for assisted housing. In other instances, tenant rents were miscalculated, resulting in possible overcharges or undercharges to tenants.
- Milford Housing Authority did not use the most current schedule for computing utility allowances, resulting in rental overcharges to tenants in federally aided housing.
- Sutton Housing Authority made errors in more than half of its rent determinations tested. As a result, certain individuals were overcharged and others undercharged, and the Authority had a net loss of rental income of approximately \$1,300.
- Wilbraham Housing Authority made errors in nearly half of its rent determinations tested. Errors were made by incorrectly calculating medical deductions and by inaccuracies in mathematical computations. As a result, the Authority overcharged certain tenants and undercharged others.



## Noncompliance with State and Federal Laws and Regulations

OSA reports disclosed that several Authorities were not in compliance with various state and federal laws and regulations. Such non-compliance could result in unnecessary or inappropriate expenditures, in loss of tax revenues, or in increased risk to tenant health and safety.

- Boston Housing Authority employees and former employees of both the Authority and the Executive Office of Communities and Development (EOCD) may have violated Chapter 268A, the state's Conflict of Interest Law. The Authority purchased five condominium units, at a total cost of \$545,000, from EOCD's former Chief Legal Counsel. This seller also employed the Authority's former Assistant Administrator, who had been involved in the Condominium Purchase Program as a consultant responsible for finalizing the sale. This potential conflict-of-interest situation has been referred to the State Ethics Commission for review. (See page 66.)
- Chelsea Housing Authority did not conduct the annual site inspections required by EOCD. As a result, potentially unsafe conditions could exist.
- Gloucester Housing Authority did not include on 1099-MISC income information forms submitted to the Internal Revenue Service and to the Massachusetts Department of Revenue, approximately \$308,000 paid to landlords. This may have resulted in lost tax revenue to the federal government and to the Commonwealth. (See page 65.)
- Milford Housing Authority did not report to the Internal Revenue Service or to the Massachusetts Department of Revenue payments of \$720 made to one employee. This may have resulted in lost tax revenue to the Commonwealth and the federal government.
- Milford Housing Authority did not obtain bid proposals, as required by state and federal regulations, for trash removal services costing \$61,590 or for renovation work costing \$13,825. As a result, the Authority could not be assured that it had obtained the best possible price for services rendered.
- Milford Housing Authority purchased a van for \$7,000 without soliciting price quotations and obtaining Board approval as required by the Department of Housing and Urban Development. As a result, the Authority, could not be assured that it had obtained the van at the best possible price.
- Rockport Housing Authority, contrary to regulations, did not conduct regularly scheduled inspections of all its rental units. As a result, unsafe or unsanitary conditions could exist.



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**Noncompliance  
with Tenant  
Selection  
Procedures;  
Delays in Renting  
Apartments**

OSA reports disclosed that certain housing Authorities did not adhere to Executive Office of Communities and Development (EOCD) regulations regarding tenant selection and did not move expeditiously to fill vacant apartments. These conditions could result in lost rental income to the Authorities, as well as in depriving eligible low-income persons of housing to which they are entitled.

- Boston Housing Authority allowed occupancy of some units by individuals and families whose income was well above limits set by the Executive Office of Communities and Development (EOCD). A number of families were also living in units larger than EOCD allowed for their particular family size and composition. As a result, certain eligible persons may have been deprived of housing or housed in units smaller than those to which they were entitled.
- Sutton Housing Authority did not comply with EOCD requirements for tenant application and selection procedures. Applicants' files did not include evidence of receipt of application or written notice of eligibility. In addition, several applicants were not assigned a control number and were not listed on the Authority's waiting list. As a result, there was no assurance that the thirteen tenants who were assigned apartments from April 1, 1990 to March 31, 1992 were housed in the order of selection required by EOCD. Moreover, other eligible applicants may have been deprived, at least temporarily, of housing to which they were entitled.
- Sutton Housing Authority experienced delays ranging from 1 day to 119 days beyond the EOCD time frame of 21 working days for occupancy of vacated apartments. As a result, the Authority lost \$2,229 in potential rental income during the audit period.
- Taunton Housing Authority, while making some progress in lowering its vacancy rate, still lost \$6,018 in potential rental income because of excessive delays in preparing 28 vacant apartments for new tenants.
- Wilbraham Housing Authority needed to improve its tenant selection procedures by assigning a control number to each completed application in order of date of receipt and checking that each applicant determined eligible is properly recorded and placed on the waiting list. This would help to ensure the accuracy of waiting lists and housing of tenants in the proper order of application.

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- Worcester Housing Authority was unable to fill certain unit vacancies within the EOCD 21-day limit in spite of good coordination among management, maintenance, and tenant selection departments, primarily because of crime-related problems. Concerns about drug-dealing, vandalism, and personal safety led to excessive unit turnover, rejection of offers of units, and prolongation of vacancies.
  - Worcester Housing Authority did not consistently assign housing to tenants based on its required waiting list. The Authority could not provide any evidence that 35 tenants, placed in state-aided housing units between January and March 1992, were housed in the proper order of application. In one instance an applicant was placed within a month of applying, ahead of 250 names on the waiting list. As a result of tenant selection deficiencies, eligible applicants may not have received housing or may have experienced unnecessary or unfair delays.
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#### **Questionable Expenditures**

Prudent business practices, such as ensuring that travel and other expenditures are entirely justifiable, increase monies available for services and minimize operating subsidies from the Commonwealth. The following are examples of questionable or specifically unallowable expenditures.

- Milford Housing Authority paid its former Chairman of the Board and its former Executive Director a total of \$12,423 for charges that lacked sufficient documentation, were excessive, or were unallowable. These payments included reimbursements for the travel expenses of spouses and for lodging expenses incurred after a conference had ended, as well as payments to board members for attending local meetings pertaining to day-to-day operations of the Authority. In addition to these specifically unallowable expenditures, a number of travel vouchers were processed and approved without proper supporting documentation.
  - Milford Housing Authority made unallowable payments totalling \$3,381 for the two fiscal years ended March 31, 1992 for gasoline and repair expenses of privately owned vehicles.
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## Prior Audit Results: Corrective Actions

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A review of prior audit results is an important component of each OSA audit. This follow-up review helps to monitor and to recognize agency compliance with OSA recommendations. The following Authorities have taken corrective actions based on OSA recommendations:

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### **Barnstable Housing Authority**

- The Authority has strengthened its administrative controls by charging expenditures to the correct accounts, by keeping payroll spending levels to authorized amounts, and by correcting errors and omissions in financial statements.
- The Authority has improved the accuracy of rent determinations in its state-aided programs by adequately documenting its computations and by performing these determinations annually, as required.
- The Authority has discontinued a supplemental fringe benefit plan that was not approved by the Executive Office of Communities and Development or the Department of Housing and Urban Development.
- The Authority has improved its tenant-selection procedures by making determinations of eligibility based on the current table of net income limits set by the Executive Office of Communities and Development. In addition, appropriate corrective action has been taken regarding four tenants who had incorrectly been denied housing.
- The Authority is currently complying with the provisions of the 1988 federal Drug-Free Workplace Law.

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### **Chelsea Housing Authority**

- The Authority has improved the safeguarding of its fixed assets by conducting an annual physical inventory and maintaining accurate records of its property and equipment.



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**Franklin County  
Regional Housing  
Authority**

- The Authority has increased potential rental income by more promptly preparing and filling vacant apartments.

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**Lawrence  
Redevelopment  
Authority**

- The Authority has enhanced its revenues by obtaining the necessary approval to open interest-paying accounts for its new project agreements in advance of receiving project funds, thereby preventing the loss of interest income. It is also placing those funds not required for immediate use in higher-yielding investment accounts.

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**Merrimac Housing  
Authority**

- The Authority is now conducting required annual site inspections.

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**Milford Housing  
Authority**

- The Authority has strengthened controls over its payroll account by requiring all employees to prepare and submit weekly time sheets.

## Initiatives

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The following is an update of planned and ongoing special OSA initiatives in the area of Authority audits:

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### **Executive Office of Communities and Development (EOCD)**

- The OSA will compare EOCD's regulations pertaining to public housing authorities with those in place for privately operated housing agencies that contract with the Commonwealth. The audit will also determine whether the privately operated agencies are maintaining adequate internal controls, are complying with applicable rules and regulations, and are providing the services required by their state contracts.

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### **Local Housing Authorities**

- The OSA is conducting a statewide audit of selected public housing authorities. This audit will review the adequacy of internal controls and compliance with programmatic requirements for the following areas: tenant selection, rent redeterminations, preparing and filling vacant units, administrative costs and related expenses, and miscellaneous revenue and other income.

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### **Massachusetts Port Authority (Massport)**

- The OSA is continuing to review Massport's policies and procedures for reimbursing personnel for travel and entertainment expenses; controls over furnishings, equipment and other fixed assets; allocation of general and administrative expenses; procedures for bidding and awarding contracts; computation of landing fees; and controls over payroll and other related expenditures. In addition, the OSA is reviewing Massport's bond issuance structure for both short-term and long-term debt financing.

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**Massachusetts  
Water Resources  
Authority (MWRA)**

- The OSA is continuing its review of the MWRA's activities relative to the administration of the Harbor Cleanup Project that will include, but not be limited to, contract awards and amendments, project scheduling, and anticipated cost and funding. It also includes an assessment of the system of internal controls the MWRA has established for estimating, monitoring, and controlling project costs. This audit will result in a series of reports, the first of which was issued July 15, 1993 and can be obtained by calling 727-2075.

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**Regional Transit  
Authorities**

- The OSA, jointly with the Office of the Inspector General, is conducting a statewide review of regional transit authorities, with particular emphasis on contract bidding and awarding processes.



Massachusetts  
Port Authority  
(Marport)

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## Education Audits

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During the report period, the OSA released 16 audits pertaining to education, including 11 audits of federal financial assistance programs of various institutions. In addition, one of the sixteen audits reviewed Electronic Data Processing (EDP) activities at one school, which is detailed in the EDP Audit section on page 50.

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## Audit Results

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### Inadequate Accounting and Administrative Controls

OSA education audits revealed deficiencies pertaining to internal control policies and procedures. Such weaknesses can create vulnerabilities to waste and illegal acts, and may result in unnecessary expenditures.

- Bristol Community College had on its records old outstanding checks totalling \$10,879 which had never been cashed by students to whom they had been sent. Because the College did not act promptly to resolve the issue of these checks, some students did not receive money to which they were entitled. Moreover, the College was not able to reissue checks to students or to return funds to appropriate programs because it had not retained the necessary data.
- Framingham State College had inadequate internal controls over the collection, reporting, and recording of the school newspaper's advertising receipts. These weaknesses allowed a student to direct checks made payable to the newspaper into a personal bank account. Nine checks, totalling \$1,794.42, were endorsed and deposited into the student's personal account.

Pursuant to the requirements of the Internal Control Statute, the OSA investigated the control environment and made recommendations for corrective action. (See page 68.)

- Holyoke Community College, while improving its recordkeeping procedures, still needed to resolve long-standing bank reconciliation differences between its bank accounts and its automated financial records systems. The College needed to identify and correct errors in its financial records and also to implement a regular bank reconciliation procedure.
- Massachusetts State College Building Authority and the University of Massachusetts and University of Lowell Building Authorities did not seek competitive bids for the majority of their accounting and legal contracts. Although Authorities are not required by law to follow a competitive bid process when awarding service contracts, it is sound business practice to do so. The Authorities could not otherwise be assured that the approximately \$288,000 spent in fiscal year 1990 for the services reviewed was the most economical cost for the required level of service.



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**Inadequate  
Accounting and  
Administrative  
Controls**

*Continued*

- Springfield Technical Community College needed to improve its internal controls in order to comply with Chapter 647 of the Acts of 1989, which established the minimum level of quality acceptable for internal control systems for state agencies. For example, the College did not have adequate documentation of its internal control systems and did not have procedures in place for notifying the State Auditor of variances, shortages, or thefts of funds or property.
- Springfield Technical Community College's revenue and trust fund records were not in agreement with the Office of the Comptroller's Massachusetts Management Accounting and Reporting System (MMARS) records. In addition, the OSA noted a variance of \$12,679 between the MMARS revenue report and the College's miscellaneous income records. Revenue and trust fund records must be reconciled in order to ensure proper control and accountability of the College's assets.
- Springfield Technical Community College needed to increase control over gasoline and vehicle usage records for College vehicles. The College's gasoline pump was neither metered nor calibrated by the local Sealer of Weights and Measures and, therefore, might have been inaccurate. In addition, the pump did not have a separate meter to accumulate a reading of total gasoline usage, which could be compared to gasoline usage records to verify the accuracy of recordings. In addition to the absence of a reconciliation procedure, vehicle usage forms were not consistently filled out by van users. As a result of control deficiencies, the College could not be assured that its expenditures for vehicle and gasoline usage were appropriate.
- The University of Lowell Building Authority entered into a five-year, \$2.4 million lease for a temporary dormitory in 1987, even though it was planning new dormitories projected to be completed within three years. In addition, the lease did not contain a termination clause. When the temporary housing was no longer needed, the Authority was unable to negotiate a termination option and therefore incurred losses of \$1.4 million attributable to this contract.
- Westfield State College's lack of adequate internal controls over its food service concessionaire contract resulted in \$1,595 in trash disposal costs that were never invoiced to the concessionaire, \$38,658 in overpayments to the concessionaire for meal revenues, the loss of \$606 in commission income, and the loss of \$600 in



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utility reimbursements to the Commonwealth. In addition, thirteen months prior to the contract's expiration date, it was renegotiated and extended for an additional four years without requests for proposals from other food service vendors. As a result of the lack of competitive bidding, there was no assurance that the College obtained the best services at the most economical price.

- Westfield State College's lack of adequate internal controls resulted in a \$76,893 variance which developed from 1982-1985 in its miscellaneous Check Exchange Fund, an account used to collect and disburse funds for college-sponsored trips and to make temporary loans to various College accounts. During the more than five years in which the variance was not resolved, supporting documents were not retained and, eventually, an entry was made to write off the variance without adequate supporting documentation and without Board of Trustee approval.
- Westfield State College's inadequate internal controls over bank deposits and transfers resulted in late bank deposits that denied the College timely use of its funds and resulted in a substantial loss of interest income. Furthermore, surplus funds were not transferred into interest-bearing accounts, resulting in \$37,000 in lost interest earnings. Lastly, untimely transfers resulted in insufficient funds in College bank accounts to cover payroll checks and payments to vendors.
- Westfield State College improperly expended \$31,125 of fiscal year 1989 accounts payable funds to satisfy fiscal year 1990 obligations. Chapter 164, section 19, MGLs provides that funds left over at the close of the fiscal year can only be used to pay bills incurred in the same fiscal year. The funds in question should have reverted to the Commonwealth's General Fund.
- Westfield State College's student billing and receivables system did not provide a clear audit trail of adjustments made to student receivable balances. Fifteen percent of tuition waiver documents reviewed were not adequately supported; detailed student receivable lists could not be located; and student receivable balances of \$144,938 were not integrated into the College's financial records. As a result, the College could not be assured that substantial financial assets were properly recorded and disbursed, or that the Commonwealth and College trust fund accounts were receiving all the revenues to which they were entitled.

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**Inadequate  
Control over  
Property and  
Equipment**

All state entities are required to keep complete inventories and to tag equipment in order to ensure that property is safeguarded and used for its intended purposes. Examples of deficiencies in this area include:

- Springfield Technical Community College had not conducted a complete physical inventory during the audit period. In addition, a number of items, including an \$850 microscope, could not be found. As a result of control deficiencies, the College could not be assured that its fixed assets were adequately protected from loss, theft, or misuse.
- The University of Lowell Building Authority, while conducting and recording physical inventories, needed to improve its computerized inventory-control tracking system by recording the cost or fair market value of each item. This is important in assuring accurate financial data and to provide for insurance information in the case of loss or theft.
- Westfield State College did not tag all equipment items. In addition, certain items were found in locations other than those shown on the inventory list and certain items could not be located. As a result, the College could not be assured that property and equipment were adequately protected from loss, theft, and misuse.

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**Inadequate  
Control over  
Trust Funds**

Higher education trust funds are composed of money and property, which are not appropriated funds or state-owned property, that are entrusted to institutions in the higher education system. The following audit revealed deficiencies in the use and management of trust funds.

- Westfield State College made 28 purchases totalling \$17,000 to be paid from trust fund accounts, without encumbering funds prior to payment. In other instances, purchases were made without evidence of either verbal or written price quotes, and refunds were made to students without proper documentation or approval. As a result, financial commitments could have been made without sufficient funding; certain items were purchased without assurance that the lowest-priced qualified vendor was used; and certain expenditures may not have been appropriate or authorized.



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- Westfield State College did not have supporting documentation for some of its trust fund payroll expenditures and, therefore, could not demonstrate that individuals received payments to which they were entitled. In addition, the College did not comply with certain Internal Revenue Service (IRS) requirements. As a result, certain employees' wages were incorrectly reported and the IRS assessed \$3,163 in penalties.

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**Noncompliance  
with Federal  
Regulations  
Regarding Student  
Assistance**

OSA audits revealed numerous deficiencies pertaining to internal controls over student financial assistance programs, resulting in violations of federal regulations. Schools participating in the federal student financial aid program must adhere to the Recipient's Guide for the U.S. Department of Education Payment Management System. This system requires schools to request funds for immediate needs only and to disburse these funds within three working days. Failure to comply with federal regulations could potentially jeopardize a school's eligibility to participate in certain federal financial aid programs, thereby limiting access to affordable education.

- Bristol Community College did not update, in timely fashion, certain federal (Pell) grant award data, including the amount paid to each student and the balance yet to be paid. Since this data is used to monitor the amount of each school's Pell grant awards and to make decisions regarding increases or decreases in a school's award, the College risked an inadequate award authorization and a liability to repay unauthorized awards.
- Mt. Wachusett Community College did not maintain its files in accordance with federal financial aid guidelines. Specifically, the person responsible for calculating student financial needs and making changes to student files could not always be determined. Additionally, entries were crossed out, new entries were difficult to read, and amounts were written over or squeezed into margins making it difficult to determine the most current information. Strict adherence to federal regulations is necessary to assure full and continued participation in the federal financial aid program.
- Northern Essex Community College needed to improve its cash management system so that immediate cash needs could be determined prior to requesting federal funds. In ten of twelve draw-downs analyzed, the College did not disburse the entire draw-down within the three days required by federal program regulations.

## Prior Audit Results: Corrective Actions

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A review of prior audit results is an important component of each OSA audit. This follow-up review helps to monitor and to acknowledge agency compliance with OSA recommendations. The following entities implemented the OSA's prior audit recommendations.

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**Greenfield  
Community  
College**

- The College has improved the maintenance of its federal cash balances and is requesting only those funds needed for use within three working days.

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**Holyoke  
Community  
College**

- The College has improved the maintenance of its federal cash balances and is requesting only those funds needed for use within three working days.
- The College is properly depositing receipts on a daily basis.

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**Massachusetts  
Bay Community  
College**

- The College has improved the maintenance of its federal cash balances and is requesting only those funds needed for use within three working days.

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**The University of  
Lowell Building  
Authority**

- The Building Authority has ceased granting dormitory rental waivers to certain students attending the University of Lowell. The University now funds dormitory grants for all students through the use of student fees assessed to the entire student population, rather than to residential students only.



## Initiatives

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The following is an update of planned and ongoing initiatives in the area of education.

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### Student Financial Aid Programs

- The OSA is continuing audits of federal student financial assistance programs at twelve public colleges.

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### University of Massachusetts Medical Center

- In accordance with Chapter 110 of the Acts of 1993, the OSA will conduct a study to determine whether the Medical Center can operate, with regard to its presents purposes, with a smaller state subsidy than it received for fiscal year 1993 or become financially self-supporting.

The following table lists the corrective actions identified by the auditors and the initiatives being implemented by the Commonwealth to address these findings. The table is organized by the type of finding, with findings related to the audit of the Office of the Attorney General listed first, followed by findings related to the audit of the Office of the Secretary of the Commonwealth, and finally findings related to the audit of the Office of the Registrar of Motor Vehicles. The table includes the following information: the finding, the corrective action, and the initiative being implemented.

Finding	Corrective Action	Initiative
The audit found that the Office of the Attorney General did not have a policy in place to ensure that all records are properly maintained and that all records are accessible to the public.	The Office of the Attorney General has implemented a policy to ensure that all records are properly maintained and that all records are accessible to the public.	The Office of the Attorney General has implemented a policy to ensure that all records are properly maintained and that all records are accessible to the public.
The audit found that the Office of the Secretary of the Commonwealth did not have a policy in place to ensure that all records are properly maintained and that all records are accessible to the public.	The Office of the Secretary of the Commonwealth has implemented a policy to ensure that all records are properly maintained and that all records are accessible to the public.	The Office of the Secretary of the Commonwealth has implemented a policy to ensure that all records are properly maintained and that all records are accessible to the public.
The audit found that the Office of the Registrar of Motor Vehicles did not have a policy in place to ensure that all records are properly maintained and that all records are accessible to the public.	The Office of the Registrar of Motor Vehicles has implemented a policy to ensure that all records are properly maintained and that all records are accessible to the public.	The Office of the Registrar of Motor Vehicles has implemented a policy to ensure that all records are properly maintained and that all records are accessible to the public.

The University of Lowell Building Authority

## Human Services Audits

During the report period, the OSA released twelve reports pertaining to human services activities, seven of which were audits of vendors who contract with the Commonwealth to provide social services. In addition, two of the twelve audits reviewed Electronic Data Processing (EDP) activities at human services agencies and are detailed in the EDP Audit section on page 50.



## Audit Results

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### Inadequate Accounting and Administrative Controls

Adequate accounting and administrative controls help to ensure that state funds are being spent properly and efficiently. Several reports revealed various internal control weaknesses that create vulnerability to waste and mismanagement and may result in lost revenues.

- Berkshire Center for Families and Children (BCFC) did not have adequate internal controls over payroll expenses, attendance records, travel reimbursements, or expenditure approvals. Specifically, BCFC did not require its staff to prepare timesheets and did not annually update records of vacation and sick leave. In addition, a former Executive Director was overpaid a total of \$30,177 in unallowable fringe benefits, of which \$12,372 was charged to state contracts. Furthermore, BCFC did not require adequate documentation before making travel reimbursements and did not use a formal travel voucher.
- Berkshire Center for Families and Children purchased services from at least five companies without a competitive-bid process and without a written contract. Although vendors contracting with the Commonwealth do not have to follow the procurement policies and procedures required of state agencies, it is prudent business practice to formally seek the highest-quality services at the lowest cost and to employ written contracts that detail scope, terms, and conditions of contracted services.
- Cape Cod Family Intervention and Rehabilitation Unit, Inc. did not have formal written procedures for recording company vehicle mileage or calculating the taxable amount of fringe benefits associated with company vehicle usage. Because staff did not keep a record of business versus personal use of these vehicles, the Commonwealth may have been inappropriately charged for private vehicle use. In addition, the taxable amount of fringe benefits was underreported by \$14,624 over a two-year period, potentially resulting in lost tax revenue.
- The Department of Mental Retardation-Community Service Center North, which had only one person available for monitoring vendor activities, did not conduct any site reviews of vendors during the audit period. A sample site review conducted by the OSA disclosed omissions and changes in timesheets, a \$542 double billing, and missing property and equipment. On-site reviews are necessary to ensure contract compliance, to detect and correct billing errors, and to oversee controls over financial operations and inventory controls.

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**Inadequate  
Accounting and  
Administrative  
Controls**

*Continued*

- The Department of Public Welfare's (DPW) Contracts and Recoveries Retroactive Recovery Unit, a division which reviews supplementary payments to Medicaid providers, did not have adequate control over its process for issuing error-correction checks. The supervisor of the Unit authorized and issued such checks without entering any provider information on DPW's computer system and without any supervisory review or approval. Account reconciliation was also performed by the same individual. This lack of segregation of duties enabled the supervisor to issue, from March 1986 through April 1992, 41 fraudulent checks, totalling \$297,048, to two individuals who were not authorized Medicaid providers. The two individuals apparently kept \$47,000 and returned approximately \$250,000 to the supervisor.

Pursuant to the requirements of the Internal Control Statute, the OSA investigated the control environment and made recommendations, which were implemented by DPW while the audit was in progress. (See page 67.)

- Franklin/Hampshire Community Mental Health Center issued a 1099-MISC income information form to its Executive Director, for \$6,375 less than the actual wage received. This condition was due to the erroneous omission of a monthly wage payment when income information was calculated.
- Old Colony Council-Boy Scouts of America did not require employees seeking reimbursement for travel to provide documentation supporting such expenses as toll charges and meals. As a result, Old Colony could not substantiate that its employees' travel-related expenses were reasonable and allowable under laws and regulations.
- Youth Opportunities Unlimited, Inc. (YOU) had not established adequate policies and procedures for the authorization, approval, and payment of expenses. During the audit period, YOU paid \$65,462 in expenses without having the appropriate documentation to substantiate that these expenses had been properly authorized, approved, and incurred.



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**Inadequate  
Control over  
Property and  
Equipment**

All state entities and private entities that receive public funding for the purchase of equipment are required to keep complete inventories of equipment, materials, and supplies in order to ensure that property is safeguarded and used for its intended purpose. The following reports identified areas where controls needed improvement.

- Berkshire Center for Families and Children (BCFC) did not maintain a written inventory detailing the location, cost, and source of funding for each item of equipment. Moreover, BCFC had not periodically conducted a physical inventory or tagged its inventory items. As a result, BCFC could not be assured that its fixed assets were adequately protected or accurately recorded on its books.
- Cape Cod Family Intervention and Rehabilitation Unit, Inc. did not maintain detailed records of its inventory stating the location of each item, its cost, and the source of funds for its purchase. In addition, an annual inventory had not been taken and equipment items did not have identifying tags. As a result, there was insufficient assurance that fixed assets were adequately safeguarded or properly recorded.
- The Department of Mental Retardation-Community Service Center North lacked adequate internal controls over its garage operations. Specifically, the Center had never conducted a physical inventory of parts and supplies on hand and had not established a perpetual inventory system; vehicle maintenance records were either incomplete or non-existent; and a former garage employee was allowed to purchase, without supervisory approval, approximately \$10,000 worth of auto supplies and parts. These conditions may have allowed the former employee to operate a private repair enterprise during regular working hours and to take parts and supplies for private use. The Center took immediate corrective action in response to OSA recommendations, including performance of a physical inventory of automobile parts and supplies and initiation of a proper recordkeeping system. However, because of the previous control deficiencies, allegations against the former employee could not be confirmed or denied.
- Old Colony Council-Boy Scouts of America did not maintain an inventory listing that identified the source of funding used to purchase each equipment item or that included a description and location of each item. Additionally, an annual physical inventory was not conducted. As a result, Old Colony could not be assured that its fixed assets were properly safeguarded or recorded on its books.

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### **Inappropriate Related Party Transactions**

Related party transactions are those which take place between entities which are owned by persons related to one another or which share common ownership or control. Use of state contract money in business transactions with immediate family members and with affiliated entities is allowable when certain conditions, defined by regulation, are met. Most importantly, the relationships among owners, directors, and board members of the entities involved must be fully disclosed, and no profit can be made on the transaction. The following inappropriate related party transactions were disclosed.

- Franklin/Hampshire Community Mental Health Center paid its related party, TNC, Inc. at least \$45,444 in excess of what was allowable under state regulation. This total includes rental charges of \$27,193 more than TNC's costs for providing two program sites and \$18,251 which accrued to TNC in a transaction involving an exchange of assets.
- Southeastern Regional Vendor Educational and Support Services, Inc. (SERVESS) and Day and Residential Service Options, Inc. (DARSO) conspired with the trustee of five realty companies to defraud the Commonwealth. The two founders of SERVESS and DARSO established a management company, CSI, without disclosing that it was a related party. CSI bought or leased homes through the above-mentioned trustee, then leased the homes at a profit to SERVESS and DARSO. The founders also established a furniture company, Underwood, and a second company, TALL Enterprises, to buy furniture which was resold, at inflated prices, to SERVESS and DARSO. As a result, the Commonwealth lost \$1 million over a five-year period.

The Commonwealth, as a result of the information disclosed during this audit, terminated all existing contracts with SERVESS and DARSO. The trustee of the five realty Companies subsequently pled guilty to one count of racketeering, and was sentenced to ten months in prison. The two founders of SERVESS and DARSO each pled guilty to 14 counts of mail fraud, a charge which includes a penalty of payment of restitution. Each received a sentence of seven months in prison. (See pages 65, 66.)



- Work, Inc. purchased services from related entities which were undisclosed and resulted in the Commonwealth's overpaying Work, Inc. in excess of \$1 million. The President and the Executive Vice-President of Work, Inc. were the same individuals who made operational decisions for three related entities from which they purchased \$3 million in services. Specifically, Work, Inc. rented property from a related party which, contrary to regulations, realized a profit of \$616,974. A second undisclosed related party provided transportation services to Work, Inc. which resulted in at least \$105,526 in overpayments by the Commonwealth. In the case of the third related party, the Commonwealth was charged for \$327,661 in unallocable utility and other costs. (See page 66.)
- Work Inc., in addition to related party transactions between corporations, had related party transactions among individual board members and management employees. At least 12 of the 29 board members and corporation officers were involved in improperly disclosed financial transactions with Work, Inc.'s affiliated entities. (See page 65.)

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**Questionable  
Billings and  
Reimbursements**

The following examples of unallowable charges and reimbursements, which reduce funds available for service provision, were noted.

- Franklin/Hampshire Community Mental Health Center overbilled the Commonwealth \$5,942 for wages over a two-month period. These overbillings occurred because expenses for certain employees were transferred to other contracts without reducing the amounts billed to the Commonwealth for the contract at issue. The Center also made advance rent and subcontractor payments, contrary to prudent cost reimbursement principles.
- Work, Inc. charged the Commonwealth for the salaries of two executives who had been granted sabbatical leaves and were representing other companies. As a result, the Commonwealth reimbursed Work, Inc. over \$50,000 in unallowable costs.
- Work, Inc. overcharged the Commonwealth for certain car allowance costs. In one instance, Work, Inc., through a related party, continued to bill the state for the operating costs of a BMW, costs the Department of Mental Retardation had previously deemed ineligible for reimbursement. Additionally, a company executive received \$650 monthly, in state money, to operate his personal car, with no documentation of what portion of this reimbursement was directly related to service provision under state contracts.

## Prior Audit Results: Corrective Actions

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A review of prior audit results is an important component of each OSA audit. This follow-up review helps to monitor and to acknowledge agency compliance with OSA recommendations. Among the human services entities that implemented the OSA's recommendations were the following:

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**Cape Cod Family  
Intervention and  
Rehabilitation Unit,  
Inc.**

- The vendor has curtailed its practice of billing the Commonwealth for services provided to out-of-state residents.
- The vendor has initiated procedures to verify client income as part of determining program eligibility and has procedures in place for billing clients and insurance companies. However, the vendor had not taken steps to recover any portion of the \$11,406 previously reimbursed by the Commonwealth for services to clients who were financially ineligible.
- The vendor is now appropriately documenting all out-patient counseling sessions.

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**Department of  
Mental  
Retardation-  
Community  
Service North**

- The Center has improved controls over its Gift Fund transactions by properly reconciling cashbook balances with bank balances and by documenting all disbursements.
- The Center has made substantial improvements in managing its Patients' Fund accounts by replacing a manual cashbook and ledger cards with an automated cashbook detailing individual patient balances.



## Initiatives

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The following is an update of planned and ongoing initiatives in the area of human services:

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### Departments of Mental Health (DMH), Public Health (DPH), and Mental Retardation (DMR): Review of Facility Closings

- The OSA is continuing a review of the Administration's consolidation plan to close certain DMH, DPH, and DMR facilities. Specific objectives include a review of the process used to arrange for alternative patient care; a cost/benefit analysis of the decision to close facilities; and a determination as to whether the loan of state owned equipment to private organizations violates any state laws, rules, or regulations.

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### Department of Public Welfare: "ET-Choices" Program

- The OSA, as mandated by Chapter 75 of the Acts of 1990, is completing an analysis and evaluation of the state's employment and training program, then entitled "ET-Choices." The evaluation includes an analysis of existing incentives and disincentives to economic independence, types of jobs offered or filled, and success and failure rates. The evaluation also includes an examination of the supportive services offered to participants of the program, such as day care and medical care, and an analysis of program costs. An Interim Report has been issued and is available from the Office of the State Auditor at 727-2075.

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### Human Services Providers: Indirect Costs

- The OSA plans to conduct a statewide review of vendors' indirect costs, such as administrative and support charges, to determine if these costs are reasonable, allowable, and allocable to state contracts.

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### Purchase of Service System

- The OSA is continuing a performance audit relative to the process for awarding state contracts to human services vendors. The audit will assess the adequacy of administrative controls over the procurement of services. Selected state agencies and provider vendors are being reviewed for compliance with policies and procedures, as well as with prescribed and acceptable practices.
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## Judiciary/Law Enforcement Audits

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Six judiciary/law enforcement audits were released during the report period, two of which reviewed Electronic Data Processing (EDP) activities and are detailed in the EDP Audit section on page 50.

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## Audit Results

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### **Inadequate Accounting and Administrative Controls**

Adequate accounting and administrative controls help to ensure that state funds are being spent properly and efficiently. The following instances of internal control weaknesses, which create vulnerability to waste and mismanagement and may result in lost revenues, were noted.

- The Massachusetts Treatment Center in Bridgewater, which had not established formal internal control systems for its canteen operations, had several control deficiencies. Specifically, the canteen manager and/or employee patients were responsible for purchasing and receiving goods, for revenue collection and reporting, and for inventory control, without any oversight from the Center's treasurer or business office. In addition, the canteen manager purchased all items without the use of purchase orders and did not retain daily cash register tapes or complete a daily cash reconciliation. As a result of these internal control weaknesses, the Center's canteen financial statements contained discrepancies, and a charge by a vendor for \$22,000 in outstanding bills could not be verified.

The Center reported the possible shortage or variance of \$22,000 to the Office of the State Auditor, as required under the Internal Control Statute, and to the State Police Special Investigations unit. (See page 69.)

- Massachusetts Correctional Institution-Park Drive Pre-release Center, while improving controls over certain payroll procedures, still did not require all employees charged to its payroll to complete time sheets. Twelve employees assigned to locations outside the Center did not prepare weekly time sheets. The payroll cost of these twelve employees, who were neither assigned to the Center nor under the control of the Center's superintendent, amounted to \$346,700 or 37 percent of the Center's total payroll expenditures for the period under audit. Due to the absence of properly prepared and approved employee weekly time sheets and the practice of charging employee salaries to correctional facilities without regard to direct working relationships, neither the Department of Corrections nor the Center could be assured of the validity of certain salaries paid.

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**Inadequate  
Accounting and  
Administrative  
Controls**

*Continued*

- Massachusetts Correctional Institution-Park Drive Pre-release Center's supplementary compensation to inmates performing satisfactory work within the industrial program or in the maintenance of correctional institutions exceeded appropriated funding and lacked written authorization from the Commissioner of the Department of Corrections for the amount of compensation paid. This compensation, known as "cadre wages," was partially funded through an inmates' Resident Fund maintained through deductions from inmate work release wages. The OSA objected to this practice as unfair to inmates, as understating the actual cost of cadre wages, and distorting the Center's budgetary requirements.
- The Office of the Chief Administrative Justice (OCAJ), reviewed as part of the OSA's annual audit of year-end encumbrance and advance-fund management, did not account for \$865,786 in 1992 advance expenditures and did not return \$220,522 in unexpended cash balances by the deadline of June 30, 1992. The OCAJ did complete its accounting for these funds on July 20, 1992. (Appendix reference for this audit is Agency Compliance with the Office of the Comptroller's Official Year-End Closing Instructions for Encumbrance and Advance-Fund Management.)
- Plymouth County Probate and Family Court, reviewed as part of the OSA's annual audit of year-end closing instructions for cash and revenue management, had a ten- to twelve-week backlog of undocketed and undeposited receipts totalling \$44,403. As a result, the Commonwealth lost immediate use of these funds, as well as interest income, and vulnerability to loss or theft of funds was increased. (Appendix reference for this audit is Agency Compliance with the Office of the Comptroller's Official Year-End Closing Instructions for Cash and Revenue Management.)

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**Inadequate  
Controls over  
Property and  
Equipment**

All state entities are required to keep complete inventories of equipment, materials, and supplies in order to ensure that property is safeguarded and used for its intended purposes. The following report identified areas where inventory controls needed improvement.

- Massachusetts Correctional Institution-Park Drive Pre-release Center, while making some improvements in its inventory controls, still did not conduct required periodic physical inventories of materials and supplies. As a result, the Center could not be assured that its purchases of materials and supplies, totalling \$69,000 in fiscal year 1992, were safeguarded from loss and misuse.



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**Inappropriate  
Deduction from  
Inmate Wages**

Massachusetts Correctional Institution (MCI)-Park Drive Pre-release Center maintained a Resident Fund for the benefit of the inmates residing at the Center. The OSA questioned the practice of maintaining this Fund through deduction from work release inmate wages, as discussed below.

- **MCI-Park Drive Pre-release Center's Resident Orientation Manual** encouraged inmates to voluntarily contribute to a Resident Fund to be used for the general benefit of all Center inmates. During the audit period, the Resident Fund was credited with \$11,317 received from inmate wage deductions. This practice appears to be in conflict with Chapter 127, sections 48 and 86F, MGLs, which specifies the deductions that may be made from inmate wages. The Center maintained, however, that it was not violating MGLs because Department of Correction regulations allow for voluntary deductions from these wages. It is uncertain, however, that inmates in a prison program would feel comfortable refusing to participate. Therefore, in order to assure legal compliance and treat inmates fairly, the practice of maintaining a Resident Fund through inmate wage deductions should be discontinued.

## Initiatives

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Listed below are planned and ongoing initiatives in the areas of the judiciary, law enforcement, and corrections.

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### **Court Facility Rental Accounts**

- The OSA is completing its mandated audit of court facility rental accounts and related accounts of any county, city, or town that receives payments for the provision of court facilities. Section 2 of Chapter 203 of the Acts of 1988 states that every county, city, or town that receives such payments must maintain the rental funds in a separate account to be used solely for the maintenance of the rented facility. The OSA examined compliance with this requirement, as mandated by Chapter 203.

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### **Court System: Controls over the Collection and Processing of Cash Receipts**

- The OSA is continuing a review of the internal controls utilized by the Commonwealth's Court system for the collecting, recording, depositing, reporting, and safeguarding of cash receipts.

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### **Department of Correction: Overcrowding Relief Program**

- The OSA is continuing a review of the Department of Correction's County and State Overcrowding Relief Program. The review's objective is to determine county and state compliance with applicable rules, regulations, and laws regarding this program.



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Department of  
Correction  
Overcrowding  
Relief Program

## Other Audit Reports

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During the report period, the OSA released fourteen other audits pertaining to various state and local entities, six of which disclosed issues of accounting and other control deficiencies. Five of the fourteen reports reviewed Electronic Data Processing (EDP) activities and are detailed in the EDP Audit section on page 50.

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## Audit Results

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### Inadequate Accounting and Administrative Controls

Adequate accounting and administrative controls help to ensure that state appropriations are spent properly and efficiently, and that fees and fines are properly collected, recorded, and disbursed. The following instances of internal control weaknesses were noted.

- The Criminal History Systems Board did not have adequate internal controls regarding the collection, processing, and reporting of fees charged to non-government entities that request criminal offender record information (CORI). Specifically, cash received by the Board could not be traced to CORI requests because the Board did not retain the requests that accompanied payments. Without this documentation, the Board was unable to substantiate that \$136,200 collected in fiscal year 1991 was properly recorded, reported, and deposited. In addition, all duties were not properly segregated; cash records were not reconciled to bank statements; and cash receipt dates had never been entered into the Massachusetts Management Accounting and Reporting System (MMARS) to inform the Comptroller of fees collected.
- The Division of Environmental Law Enforcement had internal control deficiencies regarding the deposit and transit of registration and title fees collected at its Boston Registration Office. Specifically, one individual was responsible for recording fees collected and for preparing the deposit for transit. In addition, Division employees were not bonded, although the private courier service which carried deposits to the bank did indemnify its employees. Finally, deposits were made twice weekly rather than daily. As a result of control weaknesses, conditions were created in which \$5,000 was found missing from a bank deposit.

The Division notified the Office of the State Auditor of the shortage, as required by the Internal Control Statute. (See page 68.)

- Hampden County Regional Animal Control Center did not have sound internal control procedures necessary to ensure that \$18,000 in cash revenues collected from impoundments, adoptions and licensing of dogs, was adequately safeguarded. Intake forms were not completed in full; dog control officers' signatures required for both impoundment and release were missing; and pertinent information was not entered into the Center's monthly control log. As a result, monthly summary reports were not accurate and did not account for 328 dogs impounded. Furthermore, receipts given to customers were not pre-numbered, and transactions were not recorded on a cash register. Since the Center has a cash-only policy, it is particularly important to the integrity of transactions that they be fully documented and recorded.

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**Inadequate  
Accounting and  
Administrative  
Controls**

*Continued*

- Hampden County Regional Animal Control Center was paying a veterinarian \$500 a month for services under an oral agreement rather than a formal written contract. Veterinary visits were not documented, and bills did not indicate specific services or dates services were rendered. As a result, the Center could not be assured that it received all the veterinary services for which it paid or that services were provided at the lowest possible cost.
- The Massachusetts Aeronautics Commission was unable to provide documentation that employee calendars had been maintained during fiscal year 1991. As a result, the accuracy of leave balances for sick, vacation, and personal time could not be verified.

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**Revenue Not  
Maximized**

Prudent business practice calls for the maximization of interest income and efficient use of resources. The following entities needed to improve operations in order to enhance revenues.

- The Criminal History Systems Board did not deposit cash received on a daily basis, as required by the Office of the Comptroller's Policy Manual. As of June 2, 1992, \$5,100 was on hand, while the previous deposit had been made on May 21. Not depositing cash promptly results in a loss of interest income and increases vulnerability to loss or theft.
- Hampden County Regional Animal Control Center could increase revenues and reduce town subsidies by purchasing gas in bulk through municipal pumps, by consolidating dog food purchases, and by increasing the number of dogs at the Center. Although the Center has a capacity of 126 dogs, its daily census was only between 30 and 50 dogs. Operating substantially under capacity results in increased operating costs in relationship to fees collected, which in turn necessitates increased subsidies.
- The Massachusetts Aeronautics Commission did not deposit its cash receipts on a daily basis. Of 14 deposits reviewed, 10 deposits totalling \$326,319 were made between 2 and 21 calendar days after the original date of receipt. As a result, the Commonwealth lost immediate use of these funds as well as interest income, and vulnerability to loss or theft of funds was increased.



## Prior Audit Results: Corrective Actions

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A review of prior audit results is an important component of each OSA audit. This follow-up review helps to monitor and to acknowledge agency compliance with OSA recommendations. Corrective action, based on OSA recommendations, was taken in the following instances:

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### The Criminal History Systems Board

- The Board has discontinued the practice of expending payroll funds for individuals performing duties for other agencies.

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### The Division of Insurance

- The Division has substantially improved its procedures for recording receipts and depositing checks. Revenue is now deposited upon receipt, whether or not the licensing process has been completed.

## Initiatives

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The following are among the planned and ongoing initiatives relative to various state agencies and programs:

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### **Bond Financing for the Commonwealth**

- The OSA will review the policies and procedures utilized by state agencies and Authorities for issuing bonds. The audit will determine the costs and expenses related to bond financing. Additionally, it will examine whether contracts with underwriters and financial consultants are competitively bid and will review the process for determining consultant fees.

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### **Departmental and Other Miscellaneous Income**

- The OSA initiated a statewide review of the internal controls, compliance with competitive bidding, frequency of collection, and appropriate cost sharing of the revenue derived by state agencies that have vending-type income from coin-operated cigarette, copy, amusement, laundry, and soft-drink machines.

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### **Depression of the Central Artery/ Third Harbor Tunnel**

- The OSA is reviewing and assessing the system of internal controls that the Massachusetts Highway Department has established for estimating, monitoring, and controlling project costs in order to identify system weaknesses and opportunities for savings; cost avoidances; and adherence to timing, scheduling, and performance requirements. This audit will result in a series of reports, the first of which was issued August 19, 1993 and can be obtained by calling 727-2075.

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### **The Division of Insurance**

- The OSA is examining the audit procedures used by the Division of Insurance to determine the overall financial condition of insurance companies, including their solvency, and is also examining the adequacy of reserves held by the Division.

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### **Local Aid Fund**

- The OSA, as mandated under Chapter 268 of the Acts of 1990, is conducting an audit of the Local Aid Fund, including the actual disposition of all revenue credited to said fund. This review will show (1) the total amount of revenue derived from the state income tax, sales tax, and corporate income tax as well as the balance of the State Lottery Fund after the payment of prizes and expenses of operations; (2) the amount of revenue that was actually credited to the Local Aid Fund; (3) the amount of revenue



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from the Local Aid Fund that was appropriated to the cities and towns; and (4) the amount of revenue that was actually distributed from the Local Aid Fund to each city and town.

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**Revenue  
Estimating  
Processes for the  
Commonwealth's  
Annual  
Operations**

- The OSA is following up on a prior audit that evaluated the effectiveness of the Commonwealth's revenue estimating processes. The audit will update the prior report and identify the progress the Commonwealth has made toward implementing OSA recommendations.

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**Single Audit of the  
Commonwealth**

- During fiscal year 1994, the OSA will once again be a full partner in performing the "Single Audit of the Commonwealth." This audit constitutes satisfaction of the federal requirement to audit the Commonwealth of Massachusetts' financial operations, as well as specified compliance issues. The OSA will continue to perform the following audit functions: (1) determining the relationship of Net State Tax Revenues to Allowable Tax Revenues (Tax Cap Determination), (2) reporting on agency compliance with the Office of the Comptroller's Official Year-End Closing Instructions for Cash and Revenue Management, and (3) reporting on agency compliance with the Office of the Comptroller's Year-End Closing Instructions for Encumbrance and Advance-Fund Management.

As a partner in the "Single Audit," the OSA will provide staff resources to audit federal programs to determine whether state agencies are in compliance with applicable federal rules, regulations, and laws. Audit staff will also conduct audit procedures that are needed to render an opinion on the Comprehensive Annual Financial Report, such as verifying certain accounts and documents at several agencies and testing selected financial transactions to determine the accuracy and quality of Generally Accepted Accounting Principles (GAAP) data gathered for the GAAP-based financial statements.

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**State Employee  
Furlough Program**

- The OSA is reviewing and evaluating the extent to which the desired results and benefits established by the Furlough Program were achieved, and whether departments, Authorities, and contractors have complied with laws and regulations applicable to the program.
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## Electronic Data Processing Audits

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During the report period, the OSA issued two management letters and ten electronic data processing (EDP) audit reports detailing strengths and weaknesses of internal controls within computer-related areas. In addition, because of the changing data processing environment throughout the Commonwealth, the EDP Audit Division has continued to update survey information pertaining to computer-related operations. Results from this survey allow the EDP Audit Division to schedule audit engagements based upon levels of risk to agency data centers or automated systems.

By electronically accessing the state's primary financial system, the Massachusetts Management Accounting and Reporting System (MMARS), the Division generated data extracts to support OSA auditors in performing financial audits. Data extracts provide detailed information on financial transactions and can significantly reduce the hours of manual research. Additionally, the Division generated random number reports to assist OSA field auditors in meeting statistical sampling objectives.

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## Audit Results

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The OSA's EDP Audit Division provides expertise to evaluate internal controls relating to computer systems. The primary audit responsibility of the Division is to conduct internal control examinations of the Commonwealth's automated systems and processing environments. The objective is to determine whether sufficient controls are in effect to ensure that automated systems can be relied upon and that processing is performed in an accurate, complete, and timely manner. The Division conducts audits of application systems, systems under development, and data processing facilities. The audits may include examinations of computer operations, access security, data integrity, program-change control, environmental protection, physical security, contracts and procurement, resource management, inventory control, disaster recovery and contingency planning, backup of magnetic-storage media, and micro-computer-based systems.

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### Disaster Recovery and Contingency Planning

The overall objective of disaster recovery and contingency planning is to ensure that computer operations which are critical and important can be promptly regained in the event of significant disruptions or loss of processing capabilities. Further objectives of contingency planning are to safeguard data, programmed software, and critical documentation; to minimize security exposures and system damage; and to reduce the time required to recover from events which could significantly delay or prohibit processing.

- Bristol County District Attorney's Office, while having certain disaster recovery controls in place, did not have a comprehensive, written disaster recovery plan to address the loss of data processing services. The OSA recommended that a written disaster recovery plan be developed which addresses various disaster situations, and that the plan be subject to periodic review, approval, and testing.
- Cape and Islands District District Attorney's Office had no detailed written disaster recovery plan. The OSA urged the Office to develop a written plan with specific courses of action to address different disaster scenarios.

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**Disaster Recovery  
and Contingency  
Planning**

*Continued*

- Cape Cod Community College, as cited in a prior report, did not have a viable disaster recovery plan to ensure that critical data processing operations could be regained in an acceptable period of time. The follow-up audit found that conditions regarding disaster recovery planning had not improved, and, additionally, the College no longer had an agreement with another agency to serve as a backup facility. The OSA again recommended that the College assess the criticality of its automated systems to identify application priorities and critical resources, and that, based upon these results, a written disaster recovery and contingency plan be developed.
- The Criminal History Systems Board did not have a disaster recovery plan to regain computer operations, as cited in the prior report, and would not be able to regain processing within an acceptable period of time should a major disaster render the Board's systems inoperable. The absence of disaster recovery planning represents a serious control risk in that the inability to restore critical and important systems could have a negative impact on public safety and law enforcement throughout the Commonwealth. The OSA recommended that a formal disaster recovery plan be developed based on a risk analysis, a systems criticality assessment, and user input.
- Department of Mental Health's Central Office had not yet developed or implemented a written disaster recovery plan for restoring computer functions in the event of a long-term loss of its data processing operations. As a result, the Department could experience significant delays in re-establishing processing of administrative, financial, and therapeutic-related transactions. Because disaster recovery was not a priority, the Office had not made a significant commitment to provide the necessary resources. The OSA recommended that the Department perform a criticality assessment and risk analysis of its computer operations, and then develop comprehensive disaster recovery plans for all critical and important systems.



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- Department of Mental Retardation's Region III Office did not have a formal, written plan to ensure that computer operations could be regained in a timely and effective manner should a disaster render data processing capabilities inoperable. As a result, the Department's Region III Office was vulnerable to being unable to regain essential processing within an acceptable period of time. The OSA recommended that a written disaster recovery and contingency plan be developed.
  - Massachusetts Highway Department's disaster recovery procedures and contingency planning for its data processing operations did not exist at the time of the audit. In addition, users did not have documented plans to address the potential loss of processing capabilities. The OSA recommended that the Department assess the criticality of automated systems, identify application priorities and critical resources, and conduct a risk analysis to identify threats and potential exposures. Based upon the results, a formal disaster recovery plan should be developed.
  - The Secretary of State's Office did not have a formal, written plan to ensure that critical data processing operations for administrative functions could be regained effectively in a timely manner should a disaster render the data center inoperable. Loss of data processing operations would prevent outside organizations and Secretary of State personnel from accessing system databases. The OSA recommended that the Office assess the criticality of automated systems to identify application priorities and critical resources. An analysis should be used to identify risks and exposures relating to the Office's data processing operations. Based on these analyses, and user input, a comprehensive plan should be developed that includes the possible use of a compatible system for backup processing and a component to address the risk of loss of computer-system communications.
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## Environmental Protection

Proper environmental protection for a data center and its associated on-site or off-premises media storage area serves to minimize significant risks regarding the safety of staff and equipment. In addition, significant risk of damage to the data center itself, as well as to other areas of the agency's physical plant, could exist without adequate environmental protection.

- The Criminal History Systems Board's provisions regarding environmental protection were inadequate. Controls were not in place to protect data center equipment and personnel. Specifically, there were no smoke, fire, or water detectors in the data center and the facility's automatic fire-suppression system was inoperable. In addition, the Board was unprepared to deal with a power outage of more than one hour. The OSA recommended that smoke and fire detectors be installed in the data center and that the Board consider the purchase of a generator for the computer system. Further, it was recommended that policies and procedures regarding environmental protection for the data center be developed, approved, and implemented.
- Department of Mental Health's Central Office's environmental protection for its computer room needed to be strengthened. For example, the room lacked fire suppression equipment, as well as heat, water and smoke detectors. The OSA recommended that the computer room be relocated to a more suitable area where adequate environmental protection, such as alarm systems, could be efficiently installed. If the computer room could not be relocated, then it was recommended that the Department strengthen environmental protection in the existing computer room in the most cost-effective manner.
- Department of Mental Retardation's Region III Office had deficiencies regarding environmental protection within the computer room. Specifically, the audit found that there were no heat, smoke, or fire detectors; adequate fire suppression devices such as hand-held extinguishers were not immediately available; emergency procedures addressing personnel safety, computer shut-down, and protection of critical files and applications were not posted in the computer room; there was no emergency lighting; there were no temperature and humidity monitoring devices; and air conditioning to provide adequate cooling for computer equipment appeared to need an upgrade. The absence of adequate environmental protection places the staff and equipment at risk.



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**Financial and  
Administrative  
Controls**

Adequate financial and administrative control over the expenditure of funds for purchase, operation, and maintenance of automated systems is important to ensure that agencies are carrying out projects with economy and efficiency, that compliance with laws and regulations is being met, and that the Commonwealth is receiving value for monies spent.

- Cape and Islands District District Attorney's Office's Data Processing Department schedules and tracks cases for the Barnstable County, Dukes County, and Nantucket County Superior Court. However, District Court cases, which far outnumber Superior Court cases, were not tracked via the computer because funds were unavailable to properly staff and equip that function.
- The Massachusetts Teachers' Retirement Board (MTRB) expended approximately \$1 million for software maintenance and modifications without proper authorization, review and approval of the vendor's work. In addition, the entire process of maintaining and modifying the system lacked sufficient controls and accountability to ensure that expenditures for contracted services were effectively and efficiently made. All but \$50,000 of this money was spent without authorization from the Public Employee Retirement Administration (PERA) and, after January, 1988, proper notification by the Secretary of Administration and Finance to the House and Senate Ways and Means Committees. In so expending pension fund money, MTRB management overrode intended controls. In addition, the MTRB was a party to a misrepresentation of fact made to the State Legislature and to the Secretary of Administration and Finance in documents submitted supporting the MTRB's 1988 fiscal year budget request. The OSA sent the Office of the Comptroller a management letter concerning the implementation of MMARS-related controls regarding use of Pension Fund monies.
- MTRB had a serious backlog of data entry for teachers' monthly retirement deductions. The process of capturing data for its automated system consisted of having data entry performed at the OMIS Westboro data center, which was more than two years behind schedule. Without the monthly payroll deduction data being current, the MTRB could not produce legally required annual statements for teachers, nor accurately determine which teachers are subject to the additional 2% deduction over \$30,000 of regular compensation and verify the total amounts which should be deducted. In addition, the MTRB could neither ensure the accuracy of the current monthly pension contributions nor verify that new enrollments to the system were accurate and complete.



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**Financial and  
Administrative  
Controls**

*Continued*

- MTRB did not maintain adequate records regarding software modifications and maintenance for its application system. Although vendor invoices and records of payment were on file, the MTRB did not maintain comprehensive records of work performed by the vendor, vendor contracts, or project status reports. Since the State Treasurer's Office had contracted with the vendor, the MTRB believed that the related documentation should have been maintained by the State Treasurer's Office, but did not determine whether any such documentation was in fact on file with the State Treasurer's Office. The lack of comprehensive documentation hindered the abilities of MTRB and the State Treasurer to track and evaluate the project and assess the quality of work performed. The lack of adequate records could also hinder the Commonwealth in pursuing legal actions, should the need arise.
- The State Board of Retirement (SBR) did not provide sufficient accountability and control to ensure that expenditures for contracted services for software maintenance and modifications were effectively and efficiently made. Approximately \$2.3 million of state appropriated Pension Funds was spent on software modifications and maintenance, and on certain other administrative tasks. Of the \$2.3 million, \$1.2 million (54%) was spent without authorization from the PERA and, after January, 1988, without proper notification by the Secretary of Administration and Finance to the House and Senate Ways and Means Committees. In addition, the SBR was a party to a misrepresentation of fact made to the State Legislature and to the Secretary of Administration and Finance in documents submitted which supported the SBR's 1988 fiscal year budget request. Although SBR stated, "... over the years, we have charged the Pension Funds with the approval of PERA for the expenses needed to implement these new systems . . .," approximately \$528,546 had been expended by the SBR without the PERA's approval. The OSA sent the Office of the Comptroller a management letter concerning the implementation of MMARS-related controls regarding use of Pension Fund monies.



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- The State Board of Retirement (SBR) had serious weaknesses in recordkeeping over the period under review. There was little evidence of contracts, documentation and review of work done, or project status reports. The absence of documentation containing defined deliverables, project management controls, and evidence of review and approval hindered the State Board of Retirement's and State Treasurer's Office's ability to track and evaluate software development and maintenance projects and assess the quality of work performed. The lack of adequate records could also hinder the Commonwealth in pursuing legal actions should the need arise.

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### Inventory Control

State-owned or leased computer-related equipment should be properly tagged with inventory numbers that should be recorded on a detailed inventory list. In the following instances, inventory controls needed improvement to ensure that data processing equipment was properly accounted for and protected against loss or theft:

- The Criminal History Systems Board was not providing adequate inventory control to safeguard and account for over \$10 million worth of computer equipment. Because a complete and accurate inventory did not exist, it was not possible to determine the extent, value, and location of computer equipment. Eighteen computer equipment items listed on the inventory and valued at over \$100,000 could not be located. The OSA recommended establishment of a perpetual inventory for all EDP-related assets in accordance with the Office of the State Comptroller's inventory guidelines. In addition, it was recommended that the Board's management develop policies and procedures for centralized control over inventory of all EDP equipment.
- Massachusetts Highway Department's inventory controls to safeguard and account for over \$2 million worth of computer equipment needed to be strengthened. The Department had failed to define procedures to accurately identify and record new purchases and existing equipment located at the Department's district offices. The OSA identified district office hardware and software that was not on the inventory list, as well as computer equipment in the district offices that was not tagged. Failure to establish centralized control over all computer equipment resulted in weaknesses in asset accountability.

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## Inventory Control

*Continued*

- The Secretary of State's Office did not have formal written inventory procedures for EDP-related assets and periodic inventories had not been performed, as required by the Office of the State Comptroller. Although this inventory was on a software program, the database had not been updated for nearly two years. Additionally, only a few pieces of computer equipment were found to be tagged. The OSA recommended that policies and procedures be established for the perpetual inventorying of computer hardware and software; accurate sign-out sheets be maintained for all EDP-related equipment removed from the Office; all computer equipment be tagged; and the asset database be expanded to include equipment tag numbers and software license numbers.

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## On-site and Off-premises Media Backup and Storage

On-site and off-premises storage of backup magnetic media and software is necessary to prevent the loss of important data and to protect an agency's investment in computer software should original and/or on-site backup copies be destroyed. Failure to store critical information off site places at risk an agency's ability to restore and resume critical processing within an acceptable period of time.

- Cape Cod Community College was storing backup media tapes and archival record tapes in an appropriate off-premise site. However, the backup tapes were not being stored in a fireproof vault and were not environmentally protected. Further, backup copies of critical and important microcomputer-based application systems and associated data were not being stored off premises, thus risking loss.
- Department of Mental Retardation's Region III Office's controls regarding on-site and off-premises storage of backup media required strengthening. The Department was depending on the Office of Management Systems network in Boston to back up and preserve critical data files. Additionally, the Department did not store backup copies of its PC-based applications and data files off site. The OSA recommended that the Region III Office coordinate with the Boston Office an effective, overall storage function for its computer media and critical EDP-related documentation.



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## Physical Security

Adequate physical security for a data center serves to minimize the risk of unauthorized persons breaching the security regarding the area housing valuable computer-related equipment and information. Proper security also minimizes the risk of loss, damage, or destruction of computer equipment.

- The Criminal History Systems Board was not exercising adequate physical access security over its data center. There were no written policies and procedures regarding physical security; doors to the computer room were either left unlocked or the locks were broken; unauthorized access could be gained from outside the building; and although the data center had an alarm and a camera monitoring system, neither was functioning at the time of the audit. The OSA recommended that, based upon the results of a risk assessment, management should develop and implement written policies and procedures to help ensure the physical security of the data center.
- Department of Mental Health's Central Office needed to augment physical security for its computer room to prevent or detect unauthorized entry. Specifically, a computer room door could be opened by using a key that was common to offices along an adjacent corridor, and the computer room was not equipped with an alarm system. The OSA concurred with Department officials that the location of the computer room was not ideal, and recommended that it be relocated to a more suitable area where controls such as a card-key access system could be efficiently installed. If the computer room could not be relocated, the OSA recommended that the Department strengthen physical access security in the existing computer room in a cost-effective manner. Further recommendations were that the Department develop formal, written policies and procedures regarding physical access security, and train EDP staff in these procedures.

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## Physical Security

*Continued*

- Massachusetts Highway Department needed to strengthen controls over the physical security of its data center as well as to develop written policies and procedures. Although access to the computer room should be restricted to computer operations staff and Data Processing management, support personnel were entering the computer room on a routine basis to copy documents, retrieve reports from the printer, access the storage area, and pass through to the rear exit. The OSA recommended that, based on a risk assessment, policies and procedures be developed regarding the physical security of the data center. It was also recommended that the Micro Vax and the file servers be housed in a separate, dedicated room with only authorized personnel having access, and that the Department immediately install combination/cypher locks on all computer room doors.
- The Secretary of State's Office's provisions for physical security over its computer room needed to be strengthened to prevent and detect unauthorized access, and written policies and procedures for physical access security needed to be developed. Although the door to the computer room was equipped with a key lock, the door was unlocked during normal business hours; the computer room was not always staffed; and personnel were entering the computer room to pick up computer output and use the PC lab. The OSA recommended that physical security-related policies and procedures be developed and implemented. The OSA further recommended that computer room access be limited to computer room staff only; and that a push-button combination lock replace the key lock.

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## System Access Security

Industry guidelines or baseline controls indicate that appropriate access security controls should be in place for critical or high-risk systems to ensure that only authorized personnel obtain system access. Without system access restrictions, such as the periodic changing or deleting of passwords and user IDs, unauthorized access could be gained, resulting in the risk of system data and programs being disclosed, damaged, deleted, or modified.

- The Criminal History Systems Board's access security for external users of the Board's systems was adequate, but there were no formal policies and procedures for access security for internal Board personnel. In addition, adequate user accountability was being placed at risk by allowing the use of group passwords for in-



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house system access. The OSA recommended that the Board develop written policies and procedures for system access control which would address structure of passwords, frequency of password changes, notification of changes in users' authorized access status, authentication methods for users, establishment of audit trails, and procedures to be followed in the event of access violations.

- Department of Mental Health's Central Office's system-access security needed to be strengthened to prevent unauthorized access and use of automated systems. The OSA recommended the development of written policies and procedures which should include a formal process to require the Personnel Department to inform security administrators, in a timely manner, of any changes in employees' status, such as leaves of absence, transfers, and terminations.
- Massachusetts Highway Department's system access security over its Micro Vax system and local area network (LAN) needed to be strengthened to ensure that only authorized users have access to the systems. The OSA found that there were no written policies or procedures for system access security, no written notification from Human Resources of changes in employee status, no written guidelines on acceptable passwords, and inadequate monitoring of system use. The OSA recommended the establishment of written policies and procedures for Micro Vax and LAN security to ensure that only authorized users have access to these systems.
- The Secretary of State's Office's system access security needed to be strengthened. The audit found there was no policy in place requiring that system passwords be changed according to established criteria. Most passwords were over one year old, and some had not been changed since 1989. In addition, there were no documented standards regarding the construction or use of passwords and no restrictions against having passwords shared and written down. The OSA recommended that the Office document policies and procedures for logical access security which include password standards, password acquisition and removal, notification requirements regarding changes in employee status, and access security monitoring.



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**System Access  
Security**

*Continued*

- The State Board of Retirement (SBR) uses the programming services of the State Treasurer's Office. The State Treasurer's Office had implemented formal change control procedures to prevent and detect unauthorized changes to its automated systems. However, formal user approvals and sign-offs by SBR management were not required for in-house program changes made by State Treasurer's staff as they are for vendors working on SBR software; department heads were not required to approve change control requests before the requests were submitted to State Treasurer's staff programmers; programming output was not always reviewed by user management after a program change was installed; and program change request forms were not sequentially numbered which could result in lost or mishandled change requests.

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**System  
Development Life  
Cycle Control**

System development life cycle controls are designed to control the development of an application system through various stages from initial feasibility to production program operation. The intent is to develop systems in the most economic and effective way possible so that systems perform properly and meet the intended need. In addition, system development life cycle controls help ensure that proper attention is paid to the installation of various system features, such as access security at the appropriate developmental stage.

- The Massachusetts Teachers' Retirement Board (MTRB) failed to use system development life cycle procedures for approximately \$1 million in software maintenance and modifications for its automated retirement system. No feasibility study or cost estimates were developed; no project budget was made; and development costs of the automated system or the specific costs of the modifications and maintenance performed on its application software were not tracked.
- The State Board of Retirement (SBR) failed to institute or require proper management controls, such as system development life cycle procedures, over system maintenance. As a result, functional and detailed designs were not produced, cost estimates were not made, project deliverables were not defined, and the vendor's work was not formally reviewed and approved before payments were made. Because of the lack of documentation and an adequate audit trail, the OSA could not determine whether the \$2.3 million was expended in the most economic fashion. The OSA recommended that system development life cycle procedures continue to be followed for current and future maintenance and modifications to the SBR's application software.



## Prior Audit Results: Corrective Actions

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A review of prior audit results, which helps to monitor and to recognize agency compliance with OSA recommendations, was the focus of two EDP audits in this six-month period. The agencies reviewed were responsive to OSA recommendations and in most instances have moved expeditiously to improve EDP-related controls, as indicated by the following examples:

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**Cape Cod  
Community  
College**

- The College has installed an up-to-date fire alarm system which sounds an alarm on campus as well as at the West Barnstable fire station.

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**Department of  
Correction -  
Norfolk Data  
Center**

- The Department has strengthened disaster recovery and contingency planning for critical and important data processing operations by identifying alternative processing sites for performing data entry functions and preparing user area disaster recovery plans. The plans specify alternate-processing methods for critical and important systems.
- The Department has installed equipment to minimize processing interruptions from power disturbances and outages.
- The Department has strengthened the management of its computer-related activities by forming an EDP Steering Committee to oversee planning and policy making.

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## Enforcement Assurance: Referrals & Requests

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**H**elping to ensure compliance with state and federal law is a major charge of the OSA. In so doing, the OSA works cooperatively with various enforcement agencies such as district attorneys, the Attorney General's Office, the Office of the Inspector General, the State Ethics Commission, and federal law enforcement agencies. The OSA routinely reports violations of income-reporting laws and regulations to the Internal Revenue Service and the Massachusetts Department of Revenue. In addition, during this report period, the OSA was asked to provide technical assistance to several agencies responding to provisions of the Internal Control Statute that require the reporting of missing funds to the OSA.



## Referrals

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### **Department of Revenue (DOR) and Internal Revenue Service (IRS)**

#### **Gloucester Housing Authority**

- The OSA notified the DOR and the IRS of approximately \$308,000 that was paid to landlords by the Authority and not reported to these two tax agencies. All employers who pay \$600 or more for business services to an individual who is not an employee are required to report these payments on a 1099-MISC income information form. Failure to do this may have resulted in lost state and federal tax revenue.

#### **Southeastern Regional Vendor Educational and Support Services, Inc. (SERVESS) and Day and Residential Service Options, Inc. (DARSO)**

- The OSA referred to the DOR and the IRS audit findings disclosing that the two founders of SERVESS and DARSO and a third person defrauded the Commonwealth of \$1 million. It is possible that, in addition to other criminal activities for which these individuals have been prosecuted, violations of state and federal tax laws also occurred.

#### **Work, Inc.**

- The OSA referred to the DOR and the IRS its finding that Work, Inc. failed to disclose related party transactions among board members, management employees, and affiliated entities. This omission may have resulted in violation of state and federal tax laws.

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### **Executive Office of Health and Human Services (EOHHS)**

#### **Southeastern Regional Vendor Educational and Support Services, Inc. (SERVESS) and Day and Residential Service Options, Inc. (DARSO)**

- The OSA referred its audit of SERVESS and DARSO to EOHHS for further review. The audit disclosed that the two founders of SERVESS and DARSO defrauded the Commonwealth of \$1 million over a five-year period by exploiting the state's purchase-of-service system. The Commonwealth, during the audit period, terminated all existing contracts with SERVESS and DARSO. The individuals charged with defrauding the Commonwealth pled guilty to various offenses and received prison sentences of seven to ten months. The audit report was also referred for review to the Department of Mental Retardation, the Division of Purchased Services, and the U.S. Department of Health and Human Services.

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**Executive Office  
of Health and  
Human Services  
(EOHHS)**

*Continued*

**Work, Inc.**

- The OSA referred its audit of Work, Inc. to EOHHS for further review. The audit details several areas where Work, Inc. appears to have violated financial and regulatory requirements of its contracts with the Departments of Mental Retardation and Mental Health and the Massachusetts Rehabilitation Commission. The audit report was also referred to the Division of Purchased Services and the U.S. Department of Health and Human Services.

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**Office of the  
Attorney General**

**Southeastern Regional Vendor Educational and Support Services, Inc. (SERVESS) and Day and Residential Service Options, Inc. (DARSO)**

- The OSA referred its audit disclosing that the two founders of SERVESS and DARSO and a third person defrauded the Commonwealth of \$1 million to the Office of the Attorney General for further review. The three individuals charged with defrauding the Commonwealth pled guilty to various charges and were sentenced to prison terms of seven to ten months.

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**State Ethics  
Commission**

**Boston Housing Authority**

- The OSA referred to the State Ethics Commission its finding that employees or former employees of the Authority and of its oversight secretariat, the Executive Office of Communities and Development (EOCD), may have violated the State's Conflict of Interest Law. The Authority purchased five condominium units, at a total cost of \$545,000, from EOCD's former Chief Legal Counsel. This seller also employed the Authority's former Assistant Administrator, who had been involved in the Condominium Purchase Program, as a consultant responsible for finalizing the sale.

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**United States  
Attorney's Office**

**Southeastern Regional Vendor Educational and Support Services, Inc. (SERVESS) and Day and Residential Service Options, Inc. (DARSO)**

- The OSA referred its audit disclosing that the two founders of SERVESS and DARSO and a third person defrauded the Commonwealth of \$1 million to the United States Attorney's Office for further review. The two founders pled guilty to 14 counts of mail fraud, a charge which includes a penalty of payment of restitution, and were sentenced to seven months in prison. The third defendant pled guilty to one count of racketeering and was sentenced to 10 months in prison.
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## Agency Requests Pursuant to Internal Control Statute

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Chapter 647 of the Acts of 1989, An Act Relative to Improving Internal Controls in State Government, requires the development and implementation of internal accounting and administrative control systems in state agencies. It further requires agencies to immediately report unaccounted-for variances, losses, shortages or theft of funds or property to the State Auditor, who is then directed to identify the extent and causes of the missing funds and to make recommendations to improve the internal controls under which the variance occurred. During this report period, the OSA completed reviews on the following agency requests to investigate missing funds:

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### Department of Public Welfare (DPW)

- Pursuant to the requirements of Chapter 647, DPW notified the OSA of a theft of approximately \$297,000 from its Contracts and Recoveries Retroactive Recovery Unit. (This Unit is responsible for reviewing provider claims for supplementary Medicaid payments).

The OSA review determined that an ineffective system of internal controls, in which responsibilities were not separated so that one employee's work could serve as a check on another's allowed the Unit supervisor to misappropriate a substantial amount of money. The supervisor issued, from March 1986 through April 1992, 41 fraudulent checks, totalling \$297,000 to two individuals who were not authorized Medicaid providers and who, in turn, returned approximately \$250,000 to the supervisor. In response to OSA recommendations, DPW has instituted new procedures for issuing error-correction checks. These require verification of provider eligibility and three authorized signatories for check approval. The only authorized check signature is that of the Commissioner.

This case, which was also referred to the Bureau of Special Investigations and to the Attorney General's Office, has been prosecuted and the supervisor found guilty.

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**Division of  
Environmental  
Law Enforcement**

- Pursuant to the requirements of Chapter 647, the Division of Environmental Law Enforcement reported to the OSA a cash shortage of \$5,000 in its July 1, 1992 deposit of \$32,000. The OSA determined that inadequate internal control practices existed over the deposit and transit of fees collected at the Division's Boston registration office. Recommendations to improve internal controls included ensuring that all fees are deposited daily, requiring that each deposit is verified by a second individual, and requiring that Division employees who handle cash and checks be bonded. The Division also reported its cash shortage to the Attorney General's Office and to the State Police.

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**Framingham State  
College**

- Pursuant to the requirements of Chapter 647, the College notified the OSA of a suspected theft of \$1,794 in advertising receipts from the student-operated newspaper. The OSA reported inadequate controls over the collection, reporting, and recording of cash receipts. Due to this vulnerable control environment, a student was able to direct checks payable to the newspaper to a private account by stamping the checks with the newspaper's name, endorsing the checks, and then depositing them into a personal bank account. The thefts were discovered when a vendor billed for a supposed outstanding balance forwarded a cancelled check endorsed with the newspaper's name and the student's signature. As a result of the suspected theft, and prior to the audit review, the College took steps to improve the safeguarding of newspaper funds. Additional controls, recommended by the OSA, including use of prenumbered invoices and maintenance of all billing records for the required statutory limit, have also been implemented. Action taken against the student charged with the theft resulted in suspension from the College until the fall of 1994. The student must also pay restitution for stolen funds plus all related costs.



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**Massachusetts  
Treatment Center  
at Bridgewater**

- Pursuant to the requirements of Chapter 647, the Department of Mental Health (DMH) notified the OSA that financial statements for canteen accounts at the Massachusetts Treatment Center at Bridgewater contained certain discrepancies. In addition, a vendor was inquiring about \$22,000 in outstanding payments for delivered goods.

The OSA found that there were no documented internal control standards for the Center and that the canteen operation had control weaknesses in the areas of purchasing, payment, receiving goods, inventory, and revenue. These weaknesses, including undocumented purchases, failure to retain cash register tapes, unavailability of inventory records, and lack of management supervision over canteen operations made it impossible to determine the extent of any variance, loss, shortage, or theft at the canteen.

Prior to the completion of audit field work, the Center implemented several corrective measures including conducting a monthly inventory of the canteen, maintaining appropriate documents, and the drafting of a policies and procedures manual for the canteen operation.

The Massachusetts State Police Special Investigations Unit was also investigating the Center's canteen account activities during the audit period.

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## Division of Local Mandates

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**T**he Division of Local Mandates (DLM) was established by Proposition 2 1/2 to determine the financial impact on cities and towns of proposed or existing state laws and regulations. General Laws Chapter 29, section 27C, generally provides that any post-1980 law or regulation imposing service or cost obligations on any city or town shall be effective only if locally accepted or fully funded by the Commonwealth. Any municipality aggrieved by such a law or regulation may petition superior court to be exempted from compliance until the necessary state funding is provided. DLM's determination of the cost imposed may be offered as prima facie evidence of the state funding necessary to sustain the mandate. (For a listing of DLM determinations and cost studies for the period January 1, 1993 through June 30, 1993, see Appendix II, page 93.)

Chapter 126 of the Acts of 1984 expanded DLM's powers of review by authorizing DLM to examine any state law or regulation that has a significant local cost impact, regardless of whether it satisfies the more technical standards for a mandate determination. Chapter 126 reviews include cost benefit analyses and recommendations to the General Court for amendments.

Through these functions, DLM acts as an important liaison between local and state governments. These efforts aid the development of state policy more sensitive to local fiscal realities, and help maintain autonomy in setting municipal budget priorities.



## Legislative Studies

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DLM maintains a Legislative Review Program to analyze pending legislation and to provide technical assistance to the Legislature on mandate related issues. To ensure that the local cost impact of legislation is considered by the General Court, DLM reviews thousands of bills, prepares preliminary cost studies when appropriate, and contacts members of the Legislature to make them aware of the Auditor's concerns. In addition, DLM responds to requests for opinions and cost studies from individual legislators, legislative committees, municipalities, and governmental associations. The following is a sample of this work during the reporting period.

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**House Bills 378,  
973, 1182, 1734,  
1741 and 1894**

### **Relative to Final and Binding Arbitration**

At the request of the Chairman of the Senate Committee on Ways and Means, DLM reviewed the above-referenced bills relating to final and binding arbitration of labor disputes for various local employee organizations as part of the collective bargaining process. DLM determined that the Local Mandate Law (General Laws Chapter 29, section 27C) would not apply to these proposals because the superior provisions of Article 115 of the Amendments to the Massachusetts Constitution would govern proper enactment of these types of bills.

Article 115 essentially provides that any "...law imposing additional costs upon two or more cities and towns by the regulation of the compensation, hours, status, conditions or benefits of municipal employment..." will be subject to local acceptance unless one of two standards is met. Such a law may be binding if the Commonwealth assumes its cost, or the law is enacted by a two-thirds vote of each branch of the Legislature.

Relying on court interpretations of Article 115, DLM concluded that financial responsibility for a binding arbitration award which a municipality is powerless to refuse would depend upon the final form and enactment of the legislation. Article 115 allows three possible results:

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**House Bills 378,  
973, 1182, 1734,  
1741 and 1894**

*Continued*

1. Final and binding arbitration of labor disputes could be imposed if the Commonwealth funds every local binding arbitration award in the first instance and in each successive year the award is in effect.
2. The Legislature could impose the cost of such awards upon cities and towns if the law were enacted by a two-thirds vote of each branch.
3. In the absence of full state funding or the two-thirds vote standard, such a law would be subject to local acceptance under Article 115.

**Status:** As of the date of this report, 1993 House Bills 378, 973, 1182, 1734, 1741, and 1894 were pending before the Legislature's Joint Committee on Public Service.



## Mandate Determinations

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Cities and towns are entitled under the Local Mandate Law to petition DLM for a mandate determination on any post-Proposition 2 1/2 law, rule, or regulation believed to impose a municipal cost burden. A listing of DLM determinations made during this reporting period is included in Appendix II. (See page 93.) The following are samples of this work.

### Chapter 36 of the Acts of 1992

#### **An Act Relative to Protection of the Metropolitan Water Supply**

At the request of the Town of New Salem, DLM reviewed Chapter 36 of the Acts of 1992 and concluded that the state funding provisions of the Local Mandate Law would apply to the Act to the extent it results in a loss of property tax revenue in any city or town. For the purposes of minimizing the potential of pollutants within the state watersheds (properties on or appurtenant to fourteen reservoirs), the Act establishes restrictions on certain uses and development activities within these areas located in twenty-two municipalities. As a result, owners of property which is adversely affected may apply to the municipality's board of assessors for reductions in the valuation of their real estate, and may receive an abatement of real estate taxes. Any such abatement granted would result in a loss of property tax revenue to the city or town. The Local Mandate Law would require state reimbursement for such revenue losses.

However, because of both the clear requirement contained in section 1 of the Act that the Commonwealth provide state funding annually to compensate cities and towns for any loss of property tax revenue, and because at the time of DLM's review no reductions in property valuations had occurred, DLM deemed it premature to make a final determination of any adverse financial impact on the affected communities.

**Status:** The Department of Environmental Protection, the Metropolitan District Commission and the Massachusetts Water Resources Authority have recently completed a joint report required by section 19 of Chapter 36. With the primary purpose of assessing the local financial impact of the Act, section 19 requires the identification of all affected properties and a determination of the possibility of reductions in property values and local real estate taxes. Along with legislative leaders and local officials, DLM is reviewing this report to ensure that the legislative intent to compensate affected municipalities is realized in conformity with the Local Mandate Law.

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**330 CMR 4.03 and Rabies Control  
General Laws  
Chapters 129 and  
140**

Fourteen cities and towns asked the Division of Local Mandates to review state laws and regulations governing the duties of local animal control officers. The requests were prompted by increased costs associated with an outbreak of rabies in raccoons.

Each rabid animal or one suspected of exposure to rabies triggers a state mandated process of local investigations, quarantines, and preparation of specimens for testing at the state laboratory. Since the first case of raccoon rabies virus was confirmed in September of 1992, the rabies problem has spread to 96 Massachusetts cities and towns. Testing on 2,775 animals has revealed 326 confirmed cases. Rabies had been rare in Massachusetts until the interstate epidemic reached the Commonwealth last year.

The initial stages of DLM's review of this issue centered on draft revisions to municipal animal control requirements to be promulgated by the state Department of Food and Agriculture (330 CMR 4.03). The public comment draft of these regulations would have increased the existing quarantine oversight duties of local animal control officers. As a result of DLM's comments that state funding would be required, these duties were transferred to animal owners and their veterinarians.

DLM then reviewed all state mandates concerning local animal control, and found that other duties had been mandated prior to the January 1, 1981 effective date of mandate protection, and were therefore not subject to the Local Mandate Law.

Nevertheless, DLM's review resulted in a June 16, 1993 letter from Auditor DeNucci to 14 petitioning municipalities and their legislators recommending that the state provide additional financial and administrative assistance to cities and towns for rabies control and that outmoded statutes from the nineteenth and early twentieth century should be amended or repealed. The Auditor's letter suggested that the FY 1994 budget process may provide an opportunity to increase the level of assistance to cities and towns.

**Result:** Section 56 of Chapter 151 of the Acts of 1993, authorizes significant financial support for rabies control and monitoring. Rabies programs will share a balance of \$1,262,898, which was re-appropriated from FY 1993, with programs to control eastern equine encephalitis. Further, at least \$120,000 of this amount must be used for an experimental rabies control program for Cape Cod.



## Fiscal Impact Reviews

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In addition to making mandate determinations, DLM is authorized under Chapter 126 of the Acts of 1984 to periodically review any state law or regulation that has a significant local cost impact, regardless of whether it satisfies the more technical standards for a mandate decision under General Laws Chapter 29, Section 27C. Fiscal impact reviews include cost benefit analyses and recommendations for amendments to the General Court. On April 13, 1993 DLM submitted to the General Court a fiscal impact review entitled "A Financial Effect Determination of Unlined Landfill Closure on Massachusetts Cities and Towns." An accompanying transmittal letter requested legislative relief for affected municipalities.

### 310 CMR 19.022 and Section 23 of Chapter 153 of the Acts of 1992

#### Accelerated Closure of Unlined Landfills

At the request of the House Chairman of the Joint Committee on Natural Resources and Agriculture, DLM conducted a fiscal impact review of the state Department of Environmental Protection (DEP) regulations requiring unlined landfills to cease operations by January 1, 1994 and complete final closure by July 1, 1995. Section 23 of Chapter 153 of the Acts of 1992 essentially codified these same requirements. Although DLM had previously determined that the Local Mandate Law did not apply to this issue due to court interpretations, the Committee's request was appropriate in light of the significant and unanticipated costs many communities with unlined landfills would face.

These costs include the expenses of capping the landfill, post-closure monitoring and providing alternative means for disposal of municipal solid waste. Capping includes covering the landfill with an impervious seal to prevent precipitation from percolating through trash layers to groundwater, and covering the seal with a topsoil layer to support vegetation as an erosion control measure. Post-closure monitoring systems analyze potential air and water pollution for thirty years after closure. Alternatives to disposal at closed landfills include contracting with a private facility or constructing a lined landfill (in areas where landfills are not prohibited by DEP restrictions.) These costs also include debt service on bond issues to finance closure.

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**310 CMR 19.022  
and Section 23 of  
Chapter 153 of the  
Acts of 1992**

*Continued*

Because available data to quantify these costs were limited and outdated, DLM surveyed all cities and towns to first identify those operating active, unlined landfills, then to determine other factors influencing this expense. These other factors include the number of acres to be capped, the estimated capping cost per acre, tons of solid waste generated each year and options available for alternative disposal. DLM also consulted with the state Department of Revenue to examine the ability of affected communities to finance closure projects and to estimate debt service costs.

**Cost Impact Findings**

The Department of Environmental Protection's landfill closure requirements will have an immediate and significant financial impact on 90 cities and towns.

- There are 90 unlined municipal landfills that must be closed and 1,372 acres that must be capped. These landfills currently dispose of approximately 500,000 tons of solid waste per year.
- The average cost of capping is \$123,535 per acre, and the estimated capping cost for 90 landfills is \$169,490,505.
- Assuming that municipalities will avail themselves of the 15-year maximum time period allowed by law to finance the closures, the total estimated statewide cost based on principal and interest would be \$264,405,188.
- The average closure cost for a typical municipality will be approximately \$2,000,000. If the obligation is financed over 15 years, the debt service will be \$3,111,250.
- The impact on an individual taxpayer in a typical municipality would be \$59 per year, or \$890 over the 15-year life of financing.
- Alternatives to closed landfills will increase disposal costs for the 90 communities by an estimated \$27,026,339 per year, with the average cost per community being approximately \$300,000 per year.



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- For the 90 municipalities in the aggregate, first-year costs for debt service extended over 15 years will be \$23.2 million; alternative disposal costs will increase solid waste expenditures by \$27 million for a statewide first-year impact of approximately \$50.2 million.
  - Municipalities do not have excess capacity in their property tax levy limit to fund the closure and alternative disposal costs, and would have to reduce other budgetary items, raise or initiate fees, or ask voters for a Proposition 2 1/2 override and/or debt service exclusion.

**Result:** Effective July 1, 1993, the General Laws were amended to allow those unlined municipal or solid waste district landfills which do not pose a significant threat to the public health, safety or environment to continue operation beyond January 1, 1994 as long as certain procedures and safeguards are met. See section 147 of Chapter 110 of the Acts of 1993, amending General Laws Chapter 111, Section 150A.

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## Office of the State Auditor: Legislative Agenda

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**T**he legislative package developed and presented to the Legislature by the Office of the State Auditor (OSA) addresses significant audit results and, additionally, seeks to improve the efficiency and effectiveness of state government. The package, therefore, complements aggregate audit recommendations by suggesting systemic improvements.

The following is a summary of enacted and pending legislation from the OSA's 1993 legislative package.



## **Administratively Implemented OSA Legislation**

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### **Federal Reimbursement for Certain Special Education Costs**

The State Auditor's Report on Special Education, issued in 1991, detailed a significant opportunity, created by new federal legislation, to access Medicaid funds to support special education programs. The OSA, from 1991-1993, filed legislation (House 9 in 1993) to implement this Medicaid reimbursement program. The OSA, over the same period, also communicated with officials from the Department of Education and other state entities about the possible administrative implementation of this initiative. The Department of Education subsequently submitted requests, which were approved by the federal Department of Health and Human Services to implement the federal reimbursement program for health-related special education services. The program is expected to return \$30 million annually for Massachusetts cities and towns.

## **Enacted Legislation**

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### **Section 24 of Chapter 71**

#### **Extension of Mandate Protections to Regional School Districts and Educational Collaboratives**

A provision of OSA legislation extending mandate protections to regional school districts and to educational collaboratives was enacted as part of Chapter 71, the Education Reform Act of 1993. Prior to passage of this statute, the state was not limited in its authority to impose costs upon regional school districts or educational collaboratives. Protections relative to state mandates governing public school districts are now equalized as to local, collaborative, and regional services.

## Pending Legislation

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### House 8

#### **An Act Clarifying the Scope of the Local Mandate Law**

The bill would clarify the scope of municipal protection provided pursuant to Section 27C of Chapter 29, MGLs, the so-called Local Mandate Law. This statute provides that any law taking effect on or after January 1, 1981, imposing additional costs upon any city or town will be effective only if fully funded by the Commonwealth or if locally accepted. In addition, it provides that any post-1980 administrative regulation or law granting or increasing exemptions from local taxation is not to be effective unless fully funded by the Commonwealth.

Certain court decisions over the past few years have both narrowed the scope of the mandate law's protections and created confusion. Consistent with the original intent of the law, House 8 would define "local mandate" to include post-1980 state laws and regulations that require a municipality to make additional expenditures to maintain any new or existing local activity, to undertake a service previously performed by the Commonwealth or a county, or to initiate or expand a contracted service.

The bill also contains provisions which would permit individual legislators to petition the Division of Local Mandates (DLM) to determine local compliance costs; allow for reimbursement of local legal costs incurred in a successful mandate challenge; authorize courts to grant an interim exemption from compliance; require state agencies to notify DLM of regulatory actions affecting local spending; and direct DLM to review agency statements of local fiscal effect for adequacy. This bill would establish a more useful standard for responding to local mandate issues and would enhance state agencies' awareness of the fiscal impact regulations can have on local budgets.

House 8 received a favorable report from the Joint Committee on State Administration and, except for one provision that has already passed into law, is pending before the House Committee on Ways and Means. The provision relating to regional school districts and educational collaboratives, which was enacted as part of the Education Reform Act, is discussed on page 79.



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**House 10      An Act Providing for Uniform Administrative Standards in the Audit of Federal Aid Received by State Agencies**

This legislation would provide for uniform standards and overall coordination in the audit of federal aid funds. Under this bill, the OSA would receive notice from state agencies of federal aid funds to be audited, would assist agencies in setting the scope and standards for various kinds of audits, and would also receive such audits when completed by private firms. The intent of the legislation is to ensure that agencies contract for and obtain audits that meet the requirements of all federal and state statutes and regulations and that audit duplication and expense be reduced.

House 10 has received preliminary approval from the House and is awaiting further floor action.

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**House 11      An Act Relative to Production of Records for Review by the State Auditor**

This legislation would provide the OSA with the authority to compel written records from an unresponsive auditee. This authority, which has already been granted to the House and Senate Post Audit Committees, the Inspector General, and the Bureau of Accounts, is a valuable discretionary tool for improving the effectiveness and timeliness of the audit process. Under the bill, if an auditee failed to produce requested records within fifteen days of a written request, the OSA would have the authority to subpoena these records.

House 11 has passed the House and has received preliminary approval in the Senate, where it is awaiting further floor action.

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House 12

**An Act Relative to the Procurement of Supplies or Services by Providers**

This bill would establish competitive bidding guidelines and procedures to govern the procurement of supplies or services by providers contracting with the Commonwealth who receive \$100,000 or more in state funding in any fiscal year. For the procurement of a supply or service in the amount of \$1,000 to \$9,999, a provider would be required to seek at least three written or oral quotations. In procuring a supply or service of \$10,000 or more, a provider would be required to solicit written quotations and bids pursuant to an invitation process to be promulgated in regulation by the Division of Purchased Services, in consultation with the Office of the State Auditor. In each case, the provider would be required to award the contract to the responsible person offering the needed supply or service at the lowest quotation. In addition, providers would be required to maintain a contract file for the period they contract with the state.

The bill also seeks to improve the integrity and disclosure of so-called "related party" transactions. Among other provisions, provider officials would be prohibited from and subject to fine for participating in any procurement matter in which an immediate family member has a financial interest.

The intent of House 12, which would require vendors to follow the same procurement practices mandated for state agencies and cities and towns, is to ensure that the best possible price is obtained for goods and services.

House 12 received a favorable report from the Joint Committee on State Administration and is currently pending before the House Committee on Ways and Means.



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**House 13****An Act Relative to Eligibility for Dental Benefits for Employees not Currently Included under Section 17 of Chapter 32A**

This legislation would amend Chapter 32A of the MGLs to include employees of constitutional offices among those who would be eligible to receive dental benefits should funding become available. Chapter 32A currently authorizes employees of the Legislature and certain managers in the Executive branch to receive dental benefits, subject to appropriation. Employees of constitutional offices are not included.

Pursuant to collectively-bargained union contracts, thousands of state employees currently receive dental/vision insurance coverage. The employees of the constitutional offices are subject to a double inequity in that they do not receive this benefit, and are also not included under Chapter 32A.

House 13 is currently pending before the Joint Committee on Public Service.

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## Private Occupational Schools: Financial Evaluations

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**C**hapters 75C, 75D, and 93 of the Massachusetts General Laws require the Office of the State Auditor (OSA) and the Department of Education to annually evaluate the financial and academic positions, respectively, of applicants for licensure or registration as private business, trade, or correspondence schools. Schools conducted by employers to train their own employees or schools or colleges chartered or otherwise authorized by the Commonwealth are exempt from the mandate of the statutes. These consumer protection statutes were enacted to ensure that private occupational schools are both financially and academically qualified to operate in Massachusetts.

Prior to their licensure or registration by the Department of Education, all such non-degree granting business, trade or correspondence schools are required to submit financial statements to the OSA. This information is evaluated annually to establish the solvency of each applicant. Those schools determined to be financially qualified for licensure or registration must then secure tuition protection in the amount recommended by the OSA.

Massachusetts statutes require the OSA to annually determine each school's appropriate tuition protection level, which may



take the form of a surety bond, an irrevocable letter of credit, or a term deposit account payable to the Commonwealth. This consumer protection is intended to cover potential tuition refunds to students resulting from fraud, deceptive student recruitment practices, or a breach of contract by the school.

At the close of fiscal year 1993, there were 120 active private occupational schools financially certified for Massachusetts licensure or registration. During the six months ended June 30, 1993, the OSA performed 42 financial evaluations. Five schools represented first-time applicants, while 37 examinations covered schools applying to the Department of Education for renewal licensure or registration. Ten schools which previously had been certified by this office were reclassified as inactive during the period.

Private occupational school course offerings include: acupuncture, appliance repair, art, bartending, broadcasting, business administration, computer programming and technology, dog grooming, floral design, industrial technology, massage therapy, modeling, photography, plumbing, secretarial skills, tractor trailer operation and travel agent training.

# Journal of Occupational Science and Technology

The Journal of Occupational Science and Technology is a peer-reviewed journal that publishes research and practice in the field of occupational science and technology. The journal is published quarterly and is available online and in print. The journal's content is focused on the intersection of science, technology, and occupation, and it covers a wide range of topics including ergonomics, human factors, occupational health and safety, and the design of work environments. The journal is a key resource for researchers, practitioners, and students in the field of occupational science and technology.



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## Appendix I

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### Audit Reports Issued

## Authority Audits

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AUDIT	AUDIT NUMBER	ISSUE DATE
1. Boston Housing Authority	92-616-2	01/26/93
2. East Bridgewater Housing Authority	93-645-2	01/19/93
3. Granby Housing Authority	93-667-2	02/08/93
4. Harwich Housing Authority	93-679-2	03/31/93
5. Lawrence Redevelopment Authority	93-689-1	03/18/93
6. Massachusetts Turnpike Authority	91-509-3	03/19/93
7. Massachusetts Bay Transportation Authority Capital Improvement Projects	92-583-3	06/03/93
8. Medfield Housing Authority	92-711-2	04/16/93
9. Milford Housing Authority	91-722-2	06/10/93
10. Palmer Redevelopment Authority	92-753-2	02/17/93
11. Spencer Housing Authority	92-784-2	02/08/93
12. Sutton Housing Authority	92-791-2	02/02/93
13. Wilbraham Housing Authority	93-818-2	06/21/93
14. Worcester Housing Authority	92-5825-2	02/11/93

## Federally Mandated Audits of State-Administered Federal & State Programs

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1. Avon Housing Authority	93-3018-8	06/30/93
2. Barnstable Housing Authority	93-3034-8	04/12/93
3. Billerica Housing Authority	93-3039-8	02/10/93
4. Brookline Housing Authority	93-3015-8	03/31/93
5. Chelmsford Housing Authority	93-3024-8	03/12/93
6. Chelsea Housing Authority	93-3023-8	01/29/93
7. Clinton Housing Authority	93-3051-8	06/30/93
8. Department of Environmental Protection	93-3081-5	06/09/93
9. Dracut Housing Authority	93-3030-8	02/10/93
10. EPA Construction Grant - City of New Bedford	92-3104-1	03/31/93
11. EPA Construction Grant - South Essex Sewerage District	91-3033-1	03/31/93
12. EPA Construction Grant- Town of North Attleboro	92-3101-1	05/25/93



AUDIT	AUDIT NUMBER	ISSUE DATE
13. EPA Construction Grant- Town of Salisbury	92-3100-1	05/25/93
14. Fall River Housing Authority	93-3021-8	04/30/93
15. Framingham Housing Authority	93-3006-8	01/08/93
16. Franklin County Regional Housing Authority	93-3014-8	06/30/93
17. Gloucester Housing Authority	92-3031-8	01/26/93
18. Halifax Housing Authority-FY1992	93-3037-8	01/26/93
19. Halifax Housing Authority-FY1991	92-3106-8	01/26/93
20. Lynn Housing Authority	93-3001-8	05/28/93
21. Massachusetts Emergency Management Agency	92-3048-1	01/29/93
22. Medway Housing Authority	93-3038-8	06/30/93
23. Merrimac Housing Authority	93-3002-8	03/12/93
24. Middleborough Housing Authority	93-3046-8	03/31/93
25. Milford Housing Authority(A-128)	92-3094-8	06/10/93
26. North Attleboro Housing Authority - FY 1991	93-3032-8	02/24/93
27. North Attleboro Housing Authority - FY 1992	93-3045-8	05/28/93
28. North Reading Housing Authority	93-3004-8	03/30/93
29. Pittsfield Housing Authority	93-3047-8	06/30/93
30. Revere Housing Authority	93-3044-8	03/31/93
31. Rockport Housing Authority	93-3007-8	02/16/93
32. Shrewsbury Housing Authority	93-3056-8	04/30/93
33. Stoughton Housing Authority	93-3033-8	01/15/93
34. Taunton Housing Authority	93-3017-8	04/30/93
35. U. S. Department of Agriculture Grant - Massachusetts Department of Food & Agriculture	92-3099-1	02/08/93
36. U. S. Fish & Wildlife Service Grants- Massachusetts Division of Fisheries & Wildlife	92-3053-1	05/18/93
37. Ware Housing Authority	93-3048-8	02/24/93
38. Wilmington Housing Authority	93-3025-8	01/22/93
39. Woburn Housing Authority	93-3009-8	02/22/93
40. Yarmouth Housing Authority	93-3042-8	03/31/93

## Education Audits

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AUDIT	AUDIT NUMBER	ISSUE DATE
1. Berkshire Community College - Student Financial Assistance Programs	93-190-2	06/14/93
2. Bristol Community College - Student Financial Assistance Programs	93-191-2 93-0193-4F	06/21/93 06/24/93
3. Cape Cod Community College (EDP)		
4. Greenfield Community College - Student Financial Assistance Programs	93-194-2	06/21/93
5. Framingham State College (Chapter 647 Review)	93-2003-2	06/10/93
6. Holyoke Community College - Student Financial Assistance Programs	93-195-2	06/21/93
7. Massachusetts Bay Community College - Student Financial Assistance Programs	93-196-2	06/21/93
8. Massachusetts College of Art - Student Financial Assistance Programs	93-181-2	06/14/93
9. Massasoit Community College - Student Financial Assistance Programs	93-197-2	06/14/93
10. Middlesex Community College - Student Financial Assistance Programs	93-199-2	06/14/93
11. Mount Wachusett Community College - Student Financial Assistance Programs	93-200-2	06/21/93
12. Northern Essex Community College - Student Financial Assistance Programs	93-201-2	06/21/93
13. Springfield Technical Community College	93-205-2	06/14/93
14. University/College Building Authorities	91-5010-3	02/11/93
15. Westfield State College	91-185-1	02/12/93
16. Worcester State College - Student Financial Assistance Programs	93-186-2	06/14/93



## Human Services Audits

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AUDIT	AUDIT NUMBER	ISSUE DATE
1. Berkshire Center for Families & Children, Inc.	92-4312-3	04/30/93
2. Cape Cod Alcoholism Intervention & Rehabilitation Unit, Inc.	92-4316-3	06/03/93
3. Department of Mental Health - Central Office (EDP)	93-0236-4C	05/27/93
4. Department of Mental Retardation - Community Service Center North	92-247-2	03/19/93
5. Department of Mental Retardation - Region III Office (EDP)	93-0247-C	05/27/93
6. Department of Public Welfare - (Chapter 647 Review)	92-2006-2	01/13/93
7. Franklin/Hampshire Community Mental Health Center, Inc.	91-4165-3	06/03/93
8. Old Colony Council - Boy Scouts of America	92-4306-3	03/15/93
9. Quincy Mental Health Center	92-265-2	01/18/93
10. Southeastern Regional Vendor Educational and Support Services, Inc. and Day and Residential Service Options, Inc.	88-6009-9	02/18/93
11. Work, Inc.	92-6005-9	02/17/93
12. Youth Opportunities Unlimited, Inc.	92-4271-3	03/16/93

## Judiciary/Law Enforcement

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1. Bristol County District Attorney's Office (EDP)	93-1264-4C	03/29/93
2. Cape and Islands District Attorney's Office (EDP)	93-1263-4C	06/30/93
3. Massachusetts Treatment Center Bridgewater (Chapter 647 Review)	92-2003-2	02/02/93
4. Massachusetts Correctional Institution Park Drive Pre-Release Center	93-927-2	06/14/93
5. Suffolk County District Attorney's Office	93-1255-2	01/27/93
6. Worcester County District Attorney's Office	93-1262-2	03/12/93

## Other Audits

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AUDIT	AUDIT NUMBER	ISSUE DATE
1. Agency Compliance with Comptroller's Year-End Closing Instructions- Cash & Revenue Management	92-5002-2	03/15/93
2. Agency Compliance with Comptroller's Year-End Closing Instructions- Encumbrance & Advance Fund Management	92-5001-2	06/22/93
3. Criminal History Systems Board	92-857-2	02/26/93
4. Criminal History Systems Board (EDP)	93-0857-4C	06/30/93
5. Division of Environmental Law Enforcement (Chapter 647 Review)	93-2001-2	06/10/93
6. Hampden County Regional Animal Control Center	92-6002-9	02/09/93
7. Labor Relations Commission	93-230-2	04/30/93
8. Massachusetts Aeronautics Commission	92-44-2	01/11/93
9. Massachusetts Highway Department (EDP)	93-0506-4C	06/30/93
10. Massachusetts Legal Assistance Corporation	93-1300-2	06/30/93
11. State Board of Retirement (EDP)	92-0088-4X	03/04/93
12. Secretary of State's Office (EDP)	93-0076-4C	06/30/93
13. Teachers' Retirement Board (EDP)	90-0163-4X	03/04/93
14. Vaccine Trust Fund	93-87-2	06/30/93



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## **Appendix II**

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### **Division of Local Mandates: Determinations & Cost Studies**

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LAW, REGULATION, OR LEGISLATION	ISSUE
House Nos. 378, 973, 1182, 1734, 1741 and 1894	Binding Arbitration
G.L. c. 209A, s. 6	Police Protection of Abused Persons
Chapter 64D, s. 12, Acts of 1993	County Expenditures for Corrections and Registries of Deeds
Chapter 36, Acts of 1992	Protection of the Metropolitan Water Supply
Chapter 250, Acts of 1992	Health Insurance Coverage for Public School Teachers
Chapter 6, s. 82, Acts of 1991	County Expenditures for Education
Chapter 23, s. 46, Acts of 1988	Health Security Act as it Applies to Municipal Gas and Electric Plants
Chapter 424, Acts of 1984	Non-Resident Post-Secondary Vocational Education Programs
105 CMR 460.000	Lead Poisoning and Control Regulations
310 CMR 19.017 <sup>1</sup>	Waste Ban Regulations
310 CMR 19.022 <sup>2</sup>	Closure of Unlined Landfills
310 CMR 22.00	Drinking Water Quality Testing Requirements
310 CMR 22.22	Cross Connection Regulations
330 CMR 4.03 <sup>3</sup>	State Rabies Control Requirements

<sup>1</sup> In response to municipal and DLM concerns, DEP has relaxed certain recycling requirements, and current legislation, if enacted, would provide state funding for local recycling/composting purposes.

<sup>2</sup> At the request of the Legislature's Joint Committee on Natural Resources and Agriculture, DLM estimated that simultaneous closure of 90 operating unlined landfills would cost \$265 million, plus \$27 million yearly for landfill disposal alternatives. Subsequently, St. 1993, c.110, s.147 requires that closure mandates be based on DEP risk assessment. (See pp. 75-77 regarding DLM's report "A Financial Effect Determination of Unlined Landfill Closure on Massachusetts Cities and Towns.")

<sup>3</sup> Chapter 151, s. 56 of the Acts of 1993 authorizes significant financial support for rabies control and monitoring, even though this issue does not fall within the state funding provisions of G.L. c. 29, s. 27C.



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 RESULT

## FUNDING

No Mandate:  
Article 115 of the Massachusetts Constitution

Not Applicable

No Costs Imposed and Pre-1981 Mandate

Not Applicable

No Mandate: Legislative Override of G.L. c. 59, s. 20A  
Mandate

Not Applicable

Effects Not Immediately Occurring

No Mandate: Local Option for Municipalities

Not Applicable

No Mandate: Legislative Override of G.L. c. 59, s. 20A

Not Applicable

No Mandate: Local Option for Municipalities to  
Operate Gas and Electric Plants

Not Applicable

Mandate

Commonwealth Deficient in Payment to the Town  
of Belchertown in FY 1992 in the Amount of \$4,643.00

Pre-1981 Mandate

Not Applicable

Mandate

Compliance Cost Certification in Progress

No Mandate: Court Decision

Not Applicable

Federal Mandate

Not Applicable

Pre-1981 Mandate

Not Applicable

Pre-1981 Mandate

Not Applicable

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